Canada's Leading Paint and Coatings Company

2003 ANNUAL REPORT

2003

at a Glance

The year 2003 marked one of the most constructive phases in SICO's history. Major steps were taken to expand and optimize the Company's operations while it continued to post a sound financial and stock market performance.

1. **EXPANSION**
   ON MAY 5, 2003, SICO COMPLETED ITS LARGEST ACQUISITION EVER WITH THE PURCHASE OF PARA INC. ("PARA"), AN ONTARIO-BASED ARCHITECTURAL PAINT MANUFACTURER. COUPLED WITH INTERNAL GROWTH, THIS ACQUISITION POSITIONED SICO AS THE LEADING ARCHITECTURAL PAINT COMPANY IN CANADA.

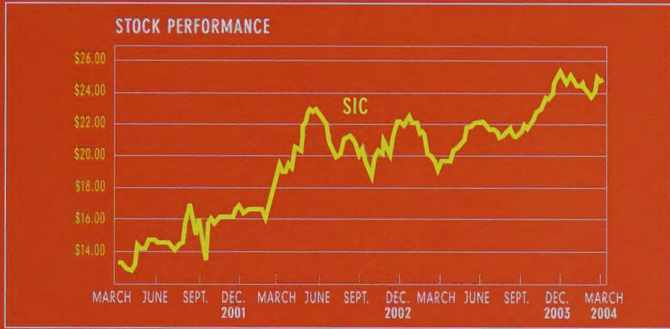
2. **OPTIMIZATION**
   IN THE MONTHS FOLLOWING THE ACQUISITION OF PARA, SICO IMPLEMENTED AND COMPLETED AN OPERATIONAL INFRASTRUCTURE OPTIMIZATION PROGRAM AIMED AT MAXIMIZING THE RETURN ON ITS ASSETS BY CONCENTRATING ITS MANUFACTURING, DISTRIBUTION AND CUSTOMER SERVICE ACTIVITIES.

As the Canadian leader of the architectural paint industry, and with a more targeted and efficient operational infrastructure, SICO anticipates sustained financial growth in 2004 and beyond.

PARA PAINTS

3. INTERNAL GROWTH IN THE ARCHITECTURAL SECTOR
Banking on its competitive strengths in technological innovation and marketing, SICO maintained a solid internal growth rate in the Canadian architectural paint market, especially in Western Canada where it doubled its market share.

4. IMPROVEMENT IN THE INDUSTRIAL SECTOR
In response to difficult market conditions in North America, SICO's Industrial Sector reorganized some of its activities to increase profitability. Concurrently, the Sico-Becker S.A.S. joint venture further penetrated the European and Chinese markets, while also improving profitability.



TOP 30 2003-4 PUBLICLY TRADED COMPANIES IN QUEBEC

5. FINANCIAL PERFORMANCE

SICO's sales reached a record high of $283.6 million, driven by the PARA acquisition and the Architectural Sector's internal growth.

Net earnings amounted to $11.2 million or $1.66 diluted per share.

Excluding the costs associated with the optimization program, net earnings rose to an all-time high of $14.3 million or $2.12 diluted per share, owing to PARA's strong contribution and the Architectural Sector's solid performance.

6. FIRST PUBLIC SHARE ISSUE SINCE 1985

On February 21, 2003, SICO successfully completed the issue of 1,000,000 common shares at a unit price of $20.40. The proceeds of this offering were subsequently used to finance part of PARA's acquisition price, while further strengthening the Company's financial position.

7. STOCK PERFORMANCE

SICO's stock grew by 11% in 2003, to close the year at $25.00. It has increased by 95% since December 2000, ranking SICO as one of the Quebec-based companies having offered the best return to investors over the last three years.

8. LABOUR RELATIONS

SICO and its employees renewed six collective agreements, including a seven-year labour agreement at the Quebec City plant.

9. SOCIAL RESPONSIBILITY

SICO and its employees donated a record $120,000 to the Centraide/United Way Canada 2003 annual campaign.

10. RECOGNITION BY THE BUSINESS COMMUNITY

For a third consecutive year, SICO was designated by *Montreal Business Magazine* as one of the "Top 30" best-performing public companies in Quebec.

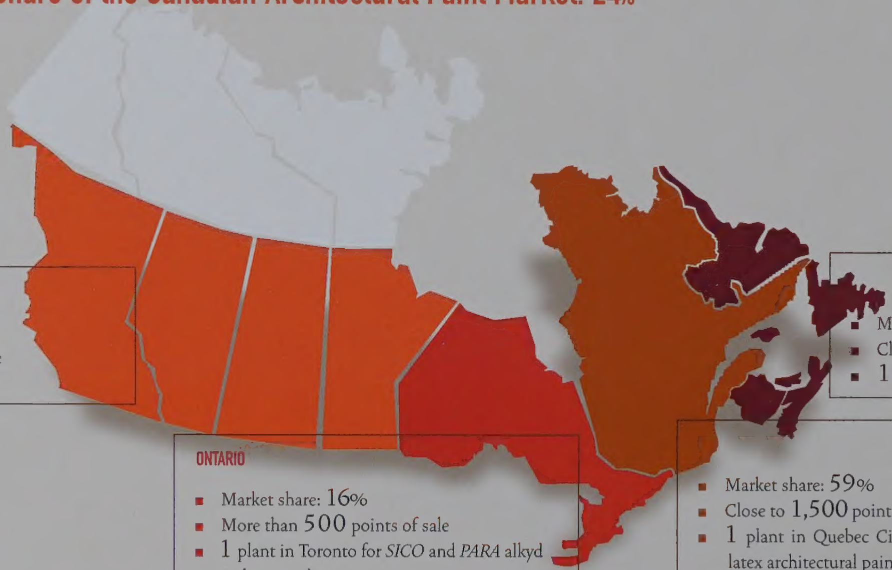
SICO was one of the eight finalists in the *Revue Commerce* Korn/Ferry contest for the quality and independence of its Board of Directors and its corporate governance practices.

In business since 1937,

SICO INC. ("SICO" OR THE "COMPANY") IS CANADA'S LARGEST ORGANIZATION SPECIALIZING IN THE DEVELOPMENT, MANUFACTURE AND MARKETING OF PAINT, COATINGS AND RELATED PRODUCTS. SICO IS A PUBLIC COMPANY LISTED ON THE TORONTO STOCK EXCHANGE UNDER THE TICKER SYMBOL SIC/TSX, AND EMPLOYS AN AVERAGE OF 1,000 PEOPLE IN CANADA, THE UNITED STATES AND MEXICO.

- The Canadian leader in the **ARCHITECTURAL PAINT** market, SICO distinguishes itself for its innovative, high-quality products enjoying strong brand recognition, and the scope of its distribution network which includes more than 2,300 points of sale throughout the country.
- SICO also markets **METAL COATINGS** in 15 countries, mainly for the railway, aerospace, and heavy transportation industries, and the specialized equipment industries.

Our Share of the Canadian Architectural Paint Market: 24%



WESTERN CANADA

- Market share: 5%
- More than 100 points of sale
- 1 warehouse in Calgary

ONTARIO

- Market share: 16%
- More than 500 points of sale
- 1 plant in Toronto for *SICO* and *PARA* alkyd architectural paints
- 1 distribution centre in Brampton

QUEBEC

- Market share: 59%
- Close to 1,500 points of sale
- 1 plant in Quebec City for *SICO* and *PARA* latex architectural paints
- 1 plant in Terrebonne for *Bétonel* architectural paints
- 1 plant in Longueuil for *MULCO* caulking and other specialty products
- 2 distribution centres in Longueuil and 1 in Montreal

ATLANTIC PROVINCES

- Market share: 13%
- Close to 200 points of sale
- 1 distribution centre in Moncton

Data regarding market share are based on management's estimates.

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except for common share data)

Fiscal years ended the last Friday of December

	2003	2002	2001	2000	1999
Sales	**283,644**	256,954	224,347	205,944	213,097
Restructuring costs	**4,650**	—	—	—	—
EBITDA [1]	**22,310**	23,286	22,145	19,873	22,655
EBITDA before restructuring cost	***26,960***	*23,286*	*22,145*	*19,873*	*22,655*
Net earnings	**11,161**	12,028	8,018	7,726	9,056
Net earnings excluding restructuring costs	**14,258**	*12,028*	*8,018*	*7,726*	*9,056*
Working capital	**46,311**	52,598	29,306	33,809	33,471
• current ratio	**2.02:1**	2.48:1	1.69:1	2.09:1	2.09:1
Fixed assets	**33,815**	39,181	40,408	38,820	32,173
Total assets	**188,823**	155,595	140,939	122,242	104,792
Long-term debt and current portion	**35,868**	38,023	25,702	30,196	15,000
Shareholders' equity	**105,461**	77,541	66,103	55,546	50,288
Total indebtedness net of cash	**41,033**	35,521	45,965	40,421	25,180
• total net indebtedness/invested capital ratio	**28:72**	31:69	41:59	42:58	33:67
Net earnings as a % of sales	**3,9%**	4,7%	3,6%	3,8%	4,2%
• *excluding restructuring costs*	**5.0%**	*4.7%*	*3.6%*	*3.8%*	*4.2%*
Return on average shareholders' equity	**12.2%**	16.7%	13.2%	14.6%	19.4%
• *excluding restructuring costs*	**15.6%**	*16.7%*	*13.2%*	*14.6%*	*19.4%*
Return on average total assets	**6.5%**	8.1%	6.1%	6.8%	8.7%
• *excluding restructuring costs*	**8.3%**	*8.1%*	*6.1%*	*6.8%*	*8.7%*
Average number of common shares outstanding	**6,580,369**	5,604,338	5,183,676	5,127,799	5,132,676
Average number of diluted common shares outstanding	**6,722,279**	5,793,576	5,407,711	5,279,776	5,444,254
Per common share:					
Basic earnings	**1.70**	2.15	1.55	1.51	1.76
• *excluding restructuring costs*	**2.17**	*2.15*	*1.55*	*1.51*	*1.76*
Diluted earnings	**1.66**	2.08	1.48	1.46	1.66
• *excluding restructuring costs*	**2.12**	*2.08*	*1.48*	*1.46*	*1.66*
Book value	**15.61**	13.54	12.18	10.91	9.80
Dividends	**0.44**	0.41	0.40	0.38	0.32
Share price					
- high	**25.50**	23.50	17.00	21.80	21.50
- low	**19.00**	15.85	12.00	12.20	15.85
- close	**25.00**	22.50	16.50	12.80	19.10
Trading volume (in thousands)	**1,942**	2,424	539	1,022	1,896

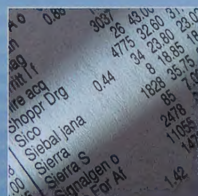
(1) EBITDA represents operating earnings before depreciation, amortization, financial (income) expenses and income taxes. This measure is a widely accepted financial indicator of a company's ability to service and incur debt. EBITDA should not be considered by an investor as an alternative to operating income or net earnings, an indicator of operating performance or of cash flows, or as a measure of liquidity. Because EBITDA is not a measurement determined in accordance with Canadian generally accepted accounting principles ("GAAP"), it may not be comparable to the EBITDA of other companies.

95%
increase in share value since December 2000

Letter from the Chairman of the Board

DEAR SHAREHOLDERS,

IT IS WITH GREAT PLEASURE THAT WE PRESENT OUR REPORT ON AN EXCEPTIONAL YEAR FOR SICO, MARKED BY GROWTH, THE CREATION OF ECONOMIC VALUE AND DECISIVE ACHIEVEMENTS FOR THE COMPANY'S FUTURE.



15.2%
average return on shareholders' equity for the past 5 years

On May 5, 2003, the acquisition of PARA — the Company's fifth acquisition in less than three years and the largest in its 66-year history — made SICO the leading company in the Canadian architectural paint industry, raising its sales to close to $284 million and bringing a substantial contribution to its profits.

The acquisition of PARA

WAS PARTIALLY FINANCED BY THE PROCEEDS FROM A PUBLIC OFFERING OF 1,000,000 COMMON SHARES AT A UNIT PRICE OF $20.40. THIS WAS SICO'S FIRST PUBLIC ISSUE IN 18 YEARS, AS THE COMPANY TOOK ADVANTAGE OF ITS STOCK MARKET PERFORMANCE TO FINANCE ITS EXPANSION.

In fact, SICO's share price rose by 11% on the Toronto Stock Exchange in 2003, to close the fiscal year at $25.00. Its value has almost doubled since the end of 2000, ranking SICO for the third consecutive year in the *Montreal Business Magazine*'s "TOP 30" chart of Quebec-based public companies offering the best yield to investors.

In September 2003, to maximize the benefits of the PARA acquisition and to increase the return on its assets, SICO initiated an operational infrastructure optimization program that will yield substantial savings as of 2004. This large-scale program was designed, implemented and executed with remarkable efficiency and promptness, enabling SICO to begin fiscal 2004 with a more flexible and cost-effective structure. We congratulate all those involved.

Despite the restructuring costs associated with the optimization program, SICO achieved one of its best performances ever in 2003, recording net earnings of $11.2 million or $1.66 diluted per share. This represents a 12.2% return on average shareholders' equity, for a five-year average return of 15.2%. Excluding last year's restructuring costs, net earnings for fiscal 2003 would have reached an all-time high of $14.3 million or $2.12 diluted per share, for a 15.6% return on average shareholders' equity. In 2003, common shareholders also enjoyed a 7.3% increase in their annual dividend, which totalled $0.44 per share.

It is with confidence that we reiterate our commitment to growing shareholder value, and to maintain our objective of delivering a 15%-plus return on average shareholders' equity.

The future looks promising for SICO.

BEGINNING IN 2004, THE COMPANY WILL REAP THE REWARDS FROM ITS RECENT EXPANSION BY LEVERAGING THE *SICO* AND *PARA* BRANDS, AND WILL ALSO BENEFIT FROM THE SAVINGS RESULTING FROM THE OPTIMIZATION OF ITS OPERATIONS.

We will ensure that SICO continues to stand apart for its innovative growth strategies and cautious management of its resources, and as a responsible corporate citizen capable of adapting its organizational and managerial practices to developments and trends in the business environment.

A rigorous and full disclosure of financial information is also a key priority to provide shareholders with a complete and accurate overview of the Company's financial position, operating results and cash flows. We are equally committed to constantly improve our corporate governance practices, which we will regularly review and evaluate to ensure full compliance with guidelines issued by securities commissions and the Toronto Stock Exchange.

We have reasons to be proud of the quality of our Board of Directors, which is comprised mostly of members unrelated to the Company, who provide SICO with in-depth and broad expertise. In May 2003, we welcomed Pierre Dufresne as a new Board member following his appointment as SICO's President and Chief Executive Officer. I wish to thank Pierre Brodeur for leading SICO to record levels of sales and profitability, during his period at the Company's helm from January 1997 to May 2003.

Finally, I would like to sincerely thank my fellow directors for their astute contribution, and join them in expressing our appreciation to SICO's management team and all its employees for their outstanding work, year after year. Last but not least, I would like to thank you, the shareholders, for your trust and support.

JEAN-PAUL LORTIE
Chairman of the Board
March 2004

Message from the President and Chief Executive Officer

THE YEAR 2003 WAS AN OUTSTANDING YEAR FOR SICO'S CORE BUSINESS: THE MARKETING OF ARCHITECTURAL PAINT. THE DEVELOPMENT OF OUR PRESENCE IN WESTERN CANADA, FOLLOWED BY THE ACQUISITION OF PARA IN MAY 2003, ENABLED THE COMPANY TO CONSOLIDATE ITS POSITIONING AND SIGNIFICANTLY INCREASE ITS MARKET SHARE IN EACH OF THE COUNTRY'S MAJOR REGIONS.

Strategically speaking, acquiring PARA enabled us to achieve the primary objective we had set in 2001: make SICO the leading architectural paint company in Canada. Business wise, this acquisition provided SICO with a second major brand, *PARA*, also recognized nation-wide for its quality, but complementary to the *SICO* brand in terms of customers and distribution networks. Financially, the integration of this profitable, well-managed company contributed to SICO's profits from day one. Combined with the Architectural Sector's strong overall performance, PARA's contribution enabled SICO to achieve new records in terms of sales and profits generated by operations, despite disappointing results for our Industrial Sector which continued to face difficult market conditions.

A decisive development for SICO's future

CONCLUDED AT A COST OF $18.2 MILLION IN ADDITION TO THE ASSUMPTION OF CERTAIN LIABILITIES, THE ACQUISITION OF PARA MORE THAN DOUBLED OUR MARKET SHARE IN ONTARIO AND GREATLY STRENGTHENED OUR PRESENCE IN ATLANTIC CANADA.

From the outset, our goal in acquiring PARA was to fully capitalize on the distinctive strengths of this architectural paint specialist, starting with its strong brand awareness in Ontario and solid positioning with independent paint and decorating specialty stores. Therefore, we chose to preserve PARA's personality, brand image and market strategies, while striving to maximize synergies in the areas of procurement and financial management. We intend to build on PARA's excellent reputation with retailers, designers and professional painters to energetically support its development and growth as the preferred brand for Canadian independent paint and decorating specialty stores.

In addition to making SICO the Canadian market leader, the acquisition of PARA gives us a broader and more in-depth coverage of the primary distribution networks used by Canadian architectural paint manufacturers to reach their products' end-users. While *SICO* remains our major national brand for hardware stores and home renovation centres, including big-box stores, *PARA* becomes our foremost brand for independent paint and decorating specialty stores. *MULCO*, our national brand of caulking compounds and adhesives, is experiencing sustained growth throughout Canada, particularly with residential, commercial and industrial construction and renovation specialists. *SICO EXPERT* is our flagship brand for large construction sites across Canada. *CROWN DIAMOND* and *CHÂTEAU*, our alternative brands, primarily meet specific differentiation needs of some of our Quebec customers. Finally, *BÉTONEL* is the most widespread brand addressing professional painters' needs in Quebec.

If we exclude the sales of the Hancock store network sold in 2002 and PARA's strong contribution to the 2003 results, our Architectural Sector posted a 4% internal growth in the last fiscal year, despite a decrease in private-label paint sales to one of our large customers.

Internal growth in 2003 was driven primarily by

THE DISTRIBUTION AGREEMENT CONCLUDED WITH RONA AT THE END OF 2002, TO SUPPLY ITS STORES IN WESTERN CANADA WITH SICO AND PRIVATE-LABEL PRODUCTS.

We invested considerable energy in the success of this large-scale operation, which involved setting up the logistical infrastructure, fine-tuning our distribution centre in Calgary, training our customer's sales force, and raising the profile of the *SICO* brand in Western Canada.

In 2003, we also achieved a solid performance in the professional painters market segment, especially with our *SICO EXPERT* products, which were selected for several large construction projects in Quebec and Ontario.

The North American market recovery we had hoped for our Industrial Sector failed to materialize in 2003. Demand continued to decline, especially in the specialized machinery market in the United States, while the sharp decrease in the U.S. dollar also had a negative impact on the Industrial Sector's sales and contribution.

Nevertheless, the Industrial Sector continued to recruit new customers in North America, while the Sico-Becker S.A.S. joint venture achieved significant sales growth in Europe.

Both units focused mainly on improving their profitability. At the beginning of 2003, we initiated an in-depth reorganization of our Industrial Sector to better target its market development efforts in North America, Europe and Asia, and to make its business processes more cohesive. Throughout the year, various measures were implemented to streamline, optimize and turn around its North American operations, notably by improving procurement management and creating more synergy between marketing, research and development, production and sales. Although they entailed additional costs in 2003, these measures will contribute to increase this sector's profitability in 2004.

In the weeks following PARA's acquisition, we carried out an in-depth evaluation of our entire organization with a triple objective in mind: maximize the benefits of our latest acquisition, take advantage of our expanded distribution networks to better serve our customers in the Architectural Sector, and optimize SICO's return on assets in both the Architectural and Industrial Sectors.

An infrastructure optimization program

WAS DRAWN UP AND IMPLEMENTED BETWEEN SEPTEMBER AND DECEMBER 2003. IT AIMED AT FURTHER SPECIALIZING AND INCREASING THE PROFITABILITY OF OUR MANUFACTURING AND DISTRIBUTION ACTIVITIES WHILE IMPROVING THE QUALITY OF OUR SERVICE.

Consistent with our objective of maintaining *PARA*'s marketing strategies, product selection and brand image, our plan was designed to promote the development of *PARA* products in Canada and to minimize the impact of the changes on its customers. Hence, PARA's premises in Brampton, became our Architectural Sector's headquarters in Ontario, where all customer service activities for the Atlantic, Ontario and Western Canadian markets are now concentrated. The main office in Longueuil fulfills the same mission for our Quebec customers.

In addition, our distribution operations for Ontario were consolidated at the PARA warehouse in Brampton, resulting in the closing of SICO's former distribution centre in Toronto. Meanwhile, PARA's warehouses in Quebec and Nova Scotia were consolidated with our existing distribution centres in Longueuil, Quebec, and Moncton, New Brunswick. By having distribution centres strategically located nationwide, SICO is more efficient in supplying its Canadian customers with architectural products. As for the manufacture of architectural paints, we chose to concentrate the production of *PARA* and *SICO* brand alkyd products and colourants at a single facility in Toronto, while that of *PARA* and *SICO* latex products is now centered at the Quebec City plant. Concurrent with this transition, our production employees in Quebec City signed a seven-year collective agreement that will ensure a harmonious relationship between the Company and this unit's unionized employees until October 2009.

In the Industrial Sector, we ceased manufacturing operations at the Brantford, Ontario plant acquired from Chemcraft International, Inc. in December 2000. The Industrial Sector's production is now concentrated at our Longueuil facility. Combined with the reorganization carried out since the beginning of fiscal 2003, restructuring the Industrial Sector's manufacturing operations will improve this sector's profitability in 2004, without affecting the quality of service or its capacity to meet future growth in demand for its products.

Overall, we closed two out of seven plants, shut down three distribution centres, and further consolidated customer service activities, incurring restructuring costs of $4.7 million in the third and fourth quarters of 2003. This major optimization program will greatly increase our two business sectors' efficiency, profitability and competitiveness in the coming years.

We have several reasons to be optimistic concerning SICO's performance in 2004. The existing home resale market and new residential construction activity, although lower than last year's exceptional levels, should remain strong in Canada, continuing to drive growth in sales of architectural paint. Thanks to this favourable business climate, we will bank on a more efficient and targeted infrastructure to take full advantage of our leading position and expanded distribution networks throughout the country, especially in Ontario and Western Canada.

Starting in 2004,

SICO WILL BENEFIT FROM ANNUALIZED SAVINGS OF OVER $3 MILLION, IN ADDITION TO THE $1 MILLION SYNERGIES ACHIEVED IN THE AREAS OF PROCUREMENT AND FINANCIAL MANAGEMENT FOLLOWING THE ACQUISITION OF PARA.

Building the *PARA* and *SICO* brands across Canada will be our Architectural Sector's priority for 2004. We also intend to continue taking part in our customers' expansion and to maintain our leading position with respect to quality and innovation. Our goal is to become the leader in the Canadian architectural paint market, not only on a national scale, but also in each of the country's major regions. We will achieve this objective through both internal growth and the pursuit of our expansion-by-acquisition program, targeting businesses offering an attractive return on invested capital and meeting our criteria for synergy in terms of products, networks and geographical markets.

We also maintain our objective of becoming a world-class supplier of value-added industrial coatings. As a result, we are currently involved in refining our strategies and business plans for this sector. As the North American economy remains uncertain for the industrial coatings industry, we will continue to grow the European and Chinese markets and, above all, continue to concentrate on improving profitability. We believe the measures taken in 2003 will increase the Industrial Sector's profitability in 2004, even during the period of slow market growth.

From an organizational standpoint, we are well aware of the direct connection between a company's financial performance and the mobilization of its human resources, and we are determined to ensure SICO's ongoing operational stability. As a result, we have decided to place more emphasis on employee empowerment, training, professional development, communicating our business policies and corporate values, while maintaining high workplace health and safety standards.

In conclusion, we stand ready to pursue what promises to be an exciting new growth phase for the Company. I would like to sincerely thank and congratulate SICO's employees for the tremendous job they accomplished in 2003.

PIERRE DUFRESNE
President and Chief Executive Officer
March 2004

ARCHITECTURAL SECTOR

SINCE 1937, SICO HAS BEEN DEVELOPING, MANUFACTURING AND MARKETING PAINTS, COATINGS AND RELATED PRODUCTS USED TO DECORATE, PROTECT AND MAINTAIN CONSUMERS' AND BUILDING OWNERS' GOODS AND PROPERTIES. OUR BROAD RANGE OF PRODUCTS INCLUDES LATEX AND ALKYD PAINTS, INDOOR AND OUTDOOR STAINS, VARNISHES, CAULKING COMPOUNDS, ADHESIVES AND OTHER SPECIALTY PRODUCTS.

Sold across Canada

UNDER THE COMPANY'S SEVERAL TRADEMARKS OR THE PRIVATE LABELS OF CERTAIN OF ITS RETAIL CUSTOMERS, SICO'S ARCHITECTURAL PRODUCTS ARE DESIGNED TO MEET CONSUMERS' NEEDS AS WELL AS THE SPECIAL REQUIREMENTS OF PROFESSIONAL PAINTERS, ARCHITECTS, DESIGNERS, BUILDING MANAGERS AND CONSTRUCTION SITE MANAGERS.

SICO reaches consumers and professionals who recommend its products through various distribution channels. Over the years, we have built solid business relations with building material and hardware retailers, our traditional distribution network. In some specific market niches, SICO also serves its customers directly either from its distribution facilities or through sales outlets such as the 79 Bétonel stores and ten Pro Centre service branches in Quebec and Ontario. Following the acquisition of PARA in 2003, SICO greatly expanded its coverage of another key distribution channel for architectural coatings: independent paint and decorating specialty stores, PARA's main clientele.

Founded in 1915, PARA distributes a full line of architectural paint and related products, mainly sold under the *PARA* trademark. PARA is also the exclusive distributor of *SIKKENS* branded stains in Ontario, for which SICO has been the exclusive distributor in Quebec and Atlantic Canada since 1994. With sales of approximately $49 million in 2002, PARA serves more than 400 retail points of sale across Canada, over half of which are in Ontario, with a significant concentration in the Greater Toronto Area. In this large market, PARA primarily serves independent paint and decorating specialty stores, whose customer base largely consists of professional painters, a growing market segment that has been one of SICO's strategic targets for several years.

One of the major benefits of PARA's acquisition lies in how it complements SICO in terms of brand image, geographical positioning and distribution networks. As a result, we are in an even better position to help our customers differentiate themselves by supporting and leveraging our various trademarks according to each of our distribution networks' specific needs.

The brand for specialty paint and decorating stores

Our national brand for the hardware and renovation centre network

This market strategy has guided most of the actions taken as part of PARA's integration plan following the May 2003 acquisition, including the guidelines of our operational infrastructure optimization program, the consolidation of information systems, the mapping of sales territories, and the training of sales and customer service representatives, particularly in Ontario. Once completed in the spring of 2004, this major integration effort will provide SICO with a solid platform to fully support and showcase the *PARA* brand to its customers.

While PARA's acquisition was the most important factor for the Architectural Sector's 13.3% sales increase in 2003, a second source of growth was the successful introduction of our products and merchandising concepts in 40 renovation centres in Western Canada — including ten big-box stores — acquired by RONA in 2001. More precisely, these retail outlets are located in British Columbia (21), Alberta (16), Manitoba (2) and Saskatchewan (1). At the end of 2002, a comprehensive production and marketing strategy was rapidly put in place to ensure efficient servicing of this major chain.

Practical training workshop

Within a few weeks, we fitted out a warehouse in Calgary, installed in-store sales areas, designed customized training programs for sales personnel, and drew up promotional and advertising campaigns to support the *SICO* brand. These initiatives were intensified in 2003.

In Western Canada,

TARGETED ADVERTISING PROGRAMS CONTRIBUTED TO MORE THAN DOUBLE SICO'S BRAND AWARENESS LEVEL IN 2003. WE ALSO PROVIDED CLOSE TO 14,000 HOURS OF TRAINING TO MORE THAN 1,000 PAINT EXPERTS ALL ACROSS CANADA.

Indeed, SICO was a pioneer and remains a leader in the Canadian architectural paint industry in training paint retailers' employees. In collaboration with education and professional training institutions and members of the renovation industry, SICO offers courses, practical training and seminars all across Canada on various aspects such as product knowledge and coating accessories, application techniques, sales techniques and paint store management. Since 1997, more than 1,000 Canadian retailers have taken advantage of training programs developed by SICO. By helping their sales clerks become genuine paint experts, SICO confirms its commitment to its customers' sales growth in the paint category and to help them build customer loyalty and increase their competitiveness.

Another key concern is meeting the constant and highly specific information needs of interior designers, who constitute a significant segment among architectural paint specifiers and users. SICO reaches these professionals through various media, such as the new electronic bulletin that was especially designed for them in 2003. The bulletin includes practical information on the use of different products and on international trends in the realm of colour and interior design.

SICO continually invests in the development of new applications that stand apart from competing products for their higher quality and performance. For instance, in the spring of 2003, we introduced a new premium outdoor wood stain that met with great success throughout Canada. Providing incomparable protection against weather hazards and UV rays, this highly versatile and durable translucent alkyd coating can be applied on various surfaces and is offered in a wide range of colours. In the last fiscal year, we also launched a new line of indoor and outdoor floor coatings with features that are unique in the Canadian market, including its wide selection of 1,000 different colours. These specialized alkyd- or latex-based coating can be applied on wood, concrete or metal floors and offers a superior performance in terms of resistance and durability. In 2004, other specialty products endorsed by SICO's technology will be developed and marketed.

QUALITY AND TECHNOLOGICAL INNOVATION ARE THE PRIMARY STRENGTHS THAT SET SICO APART IN THE CANADIAN INTERNATIONAL PAINT INDUSTRIES. THREE YEARS AFTER BEING AWARDED THE GOLD MEDAL AT THE *INTERNATIONAL QUALITY SELECTION* COMPETITION IN BRUSSELS, THE TECHNOLOGY UNDERLYING "CASHMERE" AND "CHAMOIS" PREMIUM COATINGS IS STILL UNIQUE IN THE MARKETPLACE.

Backed by dynamic marketing programs, the popularity of "Cashmere" and "Chamois" coatings continues to drive the Architectural Sector's internal sales growth from coast to coast. In 2003, a new advertising campaign was successfully launched across Canada to raise the profile of this premium product line, which will shortly be enhanced by a third equally innovative and attractive product.

Among the other highlights of 2003, the efforts we have invested in the past few years to reposition our *Crown Diamond* brand, designed for a specific segment of paint retailers, were recognized by the marketing community. Enhanced by the addition of new 100% acrylic products and a revamping of its packaging, the *Crown Diamond* line was also the focus of a very original image campaign, which earned SICO the *Coq d'argent* award in the Advertising Club of Montreal's creative advertising competition along with a certificate of excellence in the *Cassies* contest in Toronto.

Finally, our *MULCO* caulking compounds and adhesives were also highly successful in 2003 with consumers, professional users and large construction site managers alike. Already well established in Eastern Canada with a range of popular products such as *Flextra* and *Zip Seal'n Peel* caulking, the *MULCO* national brand will be the focus of special efforts in 2004 to raise its profile in Western Canada.

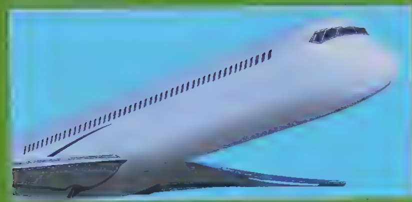
Designed for non-residential construction, renovation and maintenance projects, the *SICO EXPERT* line of coatings continues to gain ground with institutional, industrial and commercial project managers. These products are distributed through a network of authorized agents in Quebec and ten Pro Centre service branches in Ontario.

2003 was also a very good year

IN THE QUEBEC AND ONTARIO PROFESSIONAL PAINTER AND NON-RESIDENTIAL CONSTRUCTION MARKETS.

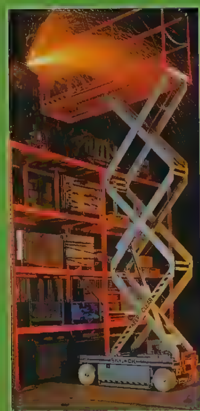
Although there were fewer major construction projects in 2003 than in 2002, SICO's sales in this sector rose significantly last year. Among the year's achievements, we supplied the coatings for the new casino and hotel complex in Niagara Falls (*photo*), the largest construction site in Ontario in 2003. SICO was also selected to fulfill the special requirements for the construction of Earth Rangers in the Vaughan, Ontario region, a large environmental complex designed to care for wild animals from around the world. In Quebec, we participated in the Kruger-Wayagamac plant construction project in Trois-Rivières — honoured as the Project of the Year 2003 by the Quebec Construction Association. This project is continuing in 2004. Other sites where SICO was commissioned as coatings supplier included the Lachenaie Hospital's new ambulatory centre, the Jean Coutu and Marcelle Coutu and the J.A. Bombardier pavilions at the *Université de Montréal*.

Maintaining its momentum, Bétonel opened six new stores in 2003, including three corporate locations. Its network currently consists of 79 outlets, mainly in Quebec. To fuel its growth, Bétonel also expanded its distribution capacity and carried on with a retrofitting program designed to modernize the image of its network and standardize its merchandising practices. In addition, a new television advertising campaign was launched, emphasizing the quality of its professional services — the cornerstone of Bétonel's strategy. Each year, Bétonel strives to strengthen the quality of its service through customized employee training and incentive programs. Together, these efforts further increased Bétonel's brand recognition in 2003.



INDUSTRIAL SECTOR

SICO HAS SPECIALIZED FOR NEARLY 20 YEARS IN THE DEVELOPMENT AND MARKETING OF HIGH-PERFORMANCE METAL COATINGS, PRIMARILY IN NORTH AMERICA, EUROPE AND ASIA. ITS TECHNOLOGIES ARE TARGETED MORE SPECIFICALLY TO THE TRANSPORTATION EQUIPMENT INDUSTRY (RAILWAY AND SUBWAY PASSENGER CARS, COMMERCIAL AND MILITARY AIRCRAFT, TRUCK TRAILERS), THE HEAVY MACHINERY INDUSTRY (AGRICULTURAL, FORESTRY AND CONSTRUCTION EQUIPMENT), AND CERTAIN OTHER SPECIALTY APPLICATIONS.



For over two years, most North American customers targeted by SICO's Industrial Sector have suffered from difficult market conditions, marked by a weak U.S. economy and a decline in capital spending on private and public infrastructures. In 2003, SICO's Canadian clientele was also affected by the sharp rise in the Canadian dollar in relation to its U.S. counterpart. In this business climate, SICO's main objective was to improve its profitability without compromising the quality of its products or the strength of its market position.

Major changes

WERE MADE TO THE INDUSTRIAL SECTOR'S NORTH AMERICAN STRUCTURE AND ORGANIZATION WHICH SHOULD HAVE A SIGNIFICANT IMPACT ON ITS CONTRIBUTION IN 2004, BY IMPROVING PRODUCTIVITY AND LOWERING FIXED COSTS.

We remapped our sales territories within a few major regions, strengthened our expertise in marketing and business development, brought our research and development, technical services, sales and operations teams closer together, reviewed our purchasing practices, closed down and sold the Brantford, Ontario plant and, finally, simplified and improved our business processes. Combined with an update of its business plan, the Industrial Sector is positioned to take advantage of the expected recovery in equipment and infrastructure investments.

In addition to these considerable efforts in improving its operations, the Industrial Sector continued to recruit new North American customers, mostly in the specialized machinery market in the United States and the commercial air transport market in Canada. SICO is the preferred coatings supplier for Canada's Department of Defence aircraft fleet. The Industrial Sector was also chosen out of nearly 200 companies, as "Supplier of the Year" at the 2003 Gala of Excellence organized by the Transportation Equipment and Special Vehicle Manufacturers Association, which includes international leaders such as Bombardier, Komatsu and NovaBus.

In Europe, although the railway industry experienced a slowdown in 2003, Sico-Becker S.A.S. maintained its lead in France and achieved further breakthroughs in neighbouring countries such as Belgium and Spain. This joint venture also plans to increase its presence in the United Kingdom and Germany in 2004. In addition, Sico-Becker successfully completed its first large-scale contract in China, while it was recently awarded another order for the Chinese market by an international transportation equipment manufacturer. Considering the huge potential of the Chinese railway market, the joint venture plans to conclude a manufacturing agreement with a local supplier. Before embarking on another growth-by-acquisition phase, SICO's Industrial Sector will continue to optimize its operations and cost structure, while seeking further synergy opportunities.

FOREWORD

General

Management's report on the Company's operating results and changes in financial position for the fiscal years ended December 26, 2003 and December 27, 2002, as well as its financial position at those dates, should be read in conjunction with the consolidated financial statements and accompanying notes presented in this annual report. Some sections of this report contain forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those indicated or underlying these forward-looking statements.

Changes in Accounting Policies *(See Note 3 to Consolidated Financial Statements)*

■ Effective January 1, 2003, the Company adopted the new recommendations of Accounting Guideline AcG-14 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, *Disclosure of guarantees*.

■ The CICA issued Section 3475, *Disposal of long-lived assets and discontinued operations*, which is effective for disposal activities initiated by a company's commitment to a plan on or after May 1, 2003. The new section replaces the disposal provisions of *Property, plant and equipment*, Section 3061, as well as *Discontinued operations*, Section 3475. The adoption of these provisions will not have a significant impact on the interim consolidated financial statements.

■ In March 2003, the Emerging Issues Committee released the Abstracts EIC-134, *Accounting for severance and termination benefits*, and EIC-135, *Accounting for costs associated with exit and disposal activities (including costs incurred in a restructuring)*. The Company adopted these new recommendations effective April 1, 2003. The impact of the application of these new recommendations is reflected in Note 5 to Consolidated Financial Statements.

Future Accounting Changes *(See Note 4 to Consolidated Financial Statements)*

■ The CICA issued Section 3063, *Impairment of long-lived assets*, which is effective for fiscal years beginning on or after April 1, 2003. This section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061, *Property, plant and equipment*.

■ The CICA issued Section 3110, *Asset retirement obligations*, which is effective for fiscal years beginning on or after January 1, 2004. The new standard focuses on the recognition and measurement of liabilities for obligations associated with the retirement of fixed assets when those obligations result from the acquisition, construction, development or normal use of the assets.

■ The CICA reissued Section 3870, *Stock-based compensation and stock-based payments*. The revised standard requires the adoption of the fair value based method for all stock-based awards effective for fiscal years beginning on or after January 1, 2004.

The Company is currently evaluating the impact of the adoption of these new standards and guidances and therefore has not yet completed its assessment of the impact on the consolidated financial statements.

EBITDA Performance Measurement

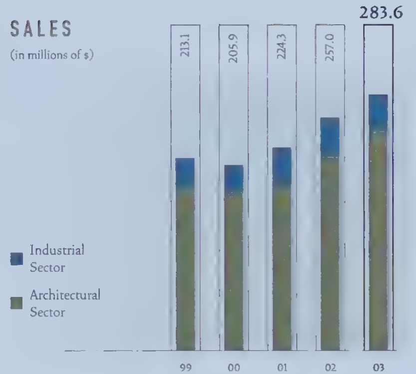
■ EBITDA represents operating earnings before depreciation, amortization, financial (income) expenses and income taxes. This measure is a widely accepted financial indicator of a company's ability to service and incur debt. EBITDA should not be considered by an investor as an alternative to operating income or net earnings, an indicator of operating performance or of cash flows, or as a measure of liquidity. Because EBITDA is not a measurement determined in accordance with Canadian generally accepted accounting principles ("GAAP"), it may not be comparable to the EBITDA of other companies. In SICO's statement of earnings, EBITDA corresponds to *"Operating earnings before the following items"*.

OPERATING RESULTS

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except for common share data)
Fiscal years ended the last Friday of December

	2003	2002	2001
Sales	**283,644**	256,954	224,347
Restructuring costs	**4,650**	—	—
Net earnings	**11,161**	12,028	8,018
Total assets	**188,823**	155,595	140,939
Long-term liabilities	**38,119**	42,601	32,365
Basic earnings per share	**1.70**	2.15	1.55
Diluted earnings per share	**1.66**	2.08	1,48
Dividends per share	**0.44**	0.41	0.40



Consolidated and Segmented Sales

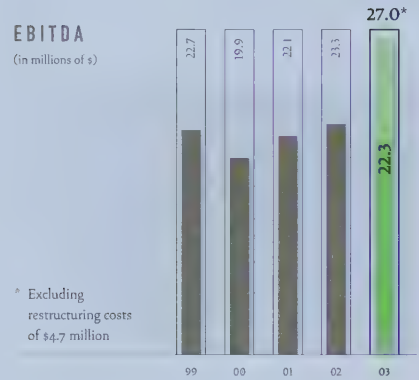
For the fiscal year ended December 26, 2003, SICO's sales totalled $283.6 million, compared with $257.0 million in 2002. This increase of 10.4% or $26.6 million is attributable to the acquisition of PARA on May 5, 2003, combined with the Architectural Sector's internal growth. These factors more than offset the revenue shortfall of about $11 million resulting from the sale of the Hancock store network at the end of fiscal 2002, as well as the decline in the Industrial Sector's sales due to difficult market conditions.

■ The **ARCHITECTURAL SECTOR**'s sales grew by 13.3% or $28.5 million to $243.5 million, representing 85.8% of the Company's total revenues. This growth is mainly attributable to PARA's contribution for the last eight months of the year. Excluding PARA, and after deducting the Hancock store network's sales from 2002 results, the Architectural Sector's revenues posted internal growth of 3.8%. The sale of *SICO* and *MULCO* branded products showed solid growth thanks to the expansion of SICO's distribution network in the retail market (especially in Western Canada), the launch of new products, including a premium outdoor stain, and dynamic marketing activities. Except for a decline in private-label paint sales to one of the Company's large customers, sales in this market segment also performed well across Canada.

■ The **INDUSTRIAL SECTOR**'s sales amounted to $40.1 million, down by 4.3% or $1.8 million. Sales for this sector were affected by weak market conditions in North America, especially in the specialized machinery market segment in the United States, as well as the decline in the U.S. dollar in relation to the Canadian dollar. Notwithstanding the exchange rate fluctuation, sales in the Industrial Sector would have decreased by approximately 1% in 2003, as the good performance achieved by the Sico-Becker S.A.S. joint venture and commercial operations in Mexico partially offset the unfavourable market conditions in North America.

Geographically, SICO generated 94.5% of its sales in Canada in 2003, versus 90.1% in 2002. The larger proportion of domestic sales can be explained by PARA's addition and lower revenues from the United States due notably to the sale of the Hancock network and a weaker U.S. dollar.

EBITDA and Restructuring Costs



SICO recorded EBITDA of $22.3 million, compared with $23.3 million the previous year. EBITDA for fiscal 2003 includes pre-tax restructuring costs of $4.7 million associated with the operational infrastructure optimization program implemented as of September 2003. Most of these restructuring costs, i.e. $3.0 million, consist of non-cash charges resulting from the revaluation or disposal of assets pursuant to the program. On a segmented basis, restructuring costs of $2.3 million were attributed to the Architectural Sector, $2.0 million to the Industrial Sector, and $0.4 million to Head Office. More specifically, the program entailed the closing of two out of SICO's seven plants, the shutdown of three distribution centres and further consolidation of customer service.

These various measures resulted in a net reduction of 65 jobs out of an annual average of close to 1,000 employees. In addition, four properties were put up for sale, including the Brantford, Ontario plant, which was sold on December 18, 2003.

Excluding the restructuring costs, EBITDA increased by $3.7 million or 15.8% in 2003. Also excluding such costs, EBITDA as a percentage of sales went from 9.1% to 9.5%, this improvement being attributable to the Architectural Sector.

- The **ARCHITECTURAL SECTOR**'s EBITDA increased by 9.0% or $3.4 million to total $41.3 million despite restructuring costs of $2.3 million, consisting mostly of losses on the revaluation of assets and severance payments. Excluding such costs, the sector's EBITDA would have risen 15.0% to $43.6 million (17.9% EBITDA as a percentage of sales), up from $37.9 million (17.6% of sales) in 2002. In addition to PARA's solid contribution, this performance was driven by the growth in sales of national brand products in both the retail and professional markets, the procurement synergies arising from the acquisition of PARA, and the positive impact of the lower U.S. dollar on the cost of some of the Company's purchases. These factors largely offset the increase in distribution and marketing costs associated with developing our presence across Canada, especially in Western Canada. Also, the Architectural Sector's profitability benefited from the December 2002 sale of the Hancock network.

- The **INDUSTRIAL SECTOR** incurred an EBITDA loss of $1.1 million, as opposed to a positive EBITDA of $3.1 million in 2002. Last year's loss is largely attributable to restructuring costs of $2.0 million consisting mostly of the loss on the disposal of assets targeted by the operational infrastructure optimization program. Excluding these costs, the Industrial Sector would have achieved EBITDA of $1.0 million. Also, the Industrial Sector reorganized some of its activities to increase its profitability, which entailed additional expenses of approximately $1.2 million in the form of asset write-downs and severance payments. The European joint venture Sico-Becker S.A.S., for its part, significantly improved its profitability in 2003.

Depreciation, Amortization and Financial (Income) Expenses

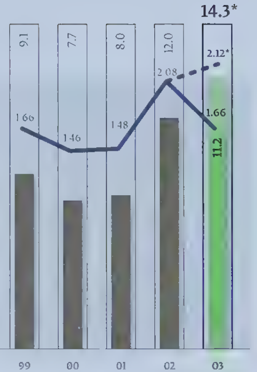
Depreciation and amortization increased by $0.6 million or 11.2% from $5.2 million to $5.8 million, due mostly to the depreciation of the fixed assets and amortization of the intangible assets acquired from PARA. SICO recorded financial income of $0.5 million, as opposed to financial expenses of $0.2 million in 2002, this favourable $0.7 million variance being mainly attributable to the following:

- the recognition of an exchange gain of approximately $1.2 million in 2003 (versus a gain of $0.2 million in 2002) on the conversion of debts and cash denominated in U.S. currency; and

- a $0.4 million increase in interest expenses resulting mainly from an increase of approximately 3% in the average indebtedness level following the acquisition of PARA.

NET EARNINGS
(in millions of $)

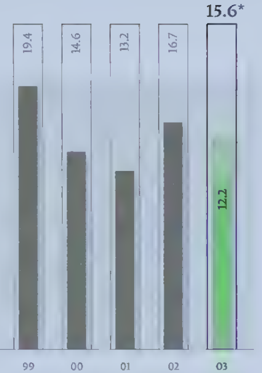
AND DILUTED EARNINGS PER COMMON SHARE
(in $)



* Excluding restructuring costs of $3.1 million or $0.46 diluted per common share, after taxes

Excluding restructuring costs, in the amount of $3.1 million after taxes, net earnings for fiscal 2003 would have amounted to $14.3 million, up 18.5% over the previous year. Also, excluding the restructuring costs, earnings per share for 2003 would have stood at $2.17 ($2.12 diluted), posting a slight growth over 2002 earnings per share. SICO would have achieved a 15.6% return on average shareholders' equity.

RETURN ON AVERAGE SHAREHOLDERS' EQUITY
(in %)



* Excluding restructuring costs

Net Earnings

SICO posted pre-tax earnings of $17.1 million, compared with $17.9 million in 2002. Excluding the restructuring costs, pre-tax earnings grew by 21.0% to $21.7 million. The effective tax rate stood at 34.5% versus 32.9% the previous year due to a combination of factors, mainly the increase in tax losses in the United States.

Consequently, the Company posted net earnings of $11.2 million, compared with $12.0 million in 2002. Earnings per share amounted to $1.70 ($1.66 diluted) on a weighted average number of 6,580,369 common shares in 2003, as opposed to $2.15 ($2.08 diluted) on 5,604,338 common shares in 2002. The higher number of shares mainly reflects the issue of 1,000,000 common shares as part of the public offering completed on February 21, 2003. In 2003, SICO achieved a 12.2% return on average shareholders' equity, versus 16.7% in 2002.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
(in thousands of $, except for common share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year ended December 26, 2003				
Sales	59,386	86,062	80,063	58,133
Restructuring costs	—	—	3,561	1,089
EBITDA	3,602	11,026	7,146	536
Net earnings (loss)	2,004	6,815	3,225	(883)
Earnings per share				
• basic	0.33	1.01	0.48	(0.13)
• diluted	0.32	1.00	0.47	(0.13)
Fiscal year ended December 27, 2002 (1)				
Sales	58,441	82,132	67,662	48,719
EBITDA	4,218	10,596	8,802	(330)
Net earnings	1,537	6,314	4,157	20
Earnings per share				
• basic	0.28	1.13	0.73	0.00
• diluted	0.27	1.09	0.72	0.00

(1) Figures for 2002 have been restated, as described in Note 2 to Consolidated Financial Statements.

Comments on Fiscal 2003 Fourth Quarter Results
Analysis of SICO's quarterly results reveals the seasonal nature of the Canadian architectural paint industry. SICO's second and third quarters generally correspond to the peak season extending from the spring to early fall, whereas demand traditionally declines during the winter period, which covers most of SICO's first and fourth quarters. Sales for the second, third and fourth quarters of fiscal 2003 also reflect the impact of the PARA acquisition, especially in the second half of the year. Figures for the second half of 2003 also show the impact of the optimization program on SICO's EBITDA and net earnings, as the Company accounted for the related restructuring costs during the last two quarters.

In the fourth quarter, SICO's sales rose 19.3% to $58.1 million, owing to the addition of PARA and the Architectural Sector's internal growth. Fourth quarter EBITDA amounted to $0.5 million, posting a $0.9 million improvement over the same period in 2002. Excluding the restructuring costs, EBITDA improved from a $0.3 million operating loss in 2002 to a $1.6 million operating profit in 2003. The Company incurred restructuring costs of $1.1 million, primarily for the optimization of the Architectural Sector.

- The **ARCHITECTURAL SECTOR**'s sales rose 27.9% to $49.5 million. Excluding PARA's contribution to 2003 results and that of the Hancock network to 2002 results, the Architectural Sector's sales recorded an internal growth of 6.2%. EBITDA jumped 54.7% to $5.7 million, despite restructuring costs of $0.9 million. Excluding such costs, EBITDA grew by 80.0% to $6.6 million, driven by PARA's contribution and an overall solid performance for the Architectural Sector's other activities, thanks to brisk consumer demand, relatively favourable weather conditions for large construction projects, and dynamic marketing strategies.

- Still affected by difficult market conditions in North America and the weak U.S. dollar, the **INDUSTRIAL SECTOR**'s quarterly sales amounted to $8.6 million, showing a decrease of 14.0% or $1.4 million of which $0.6 million is attributable to currency fluctuations. For the same reasons, and considering the costs associated with the reorganization of some of its activities, the Industrial Sector sustained a $0.5 million EBITDA loss as opposed to EBITDA of $0.3 million the previous year. This sector did not incur any significant restructuring costs related to the optimization program in the fourth quarter.

Depreciation and amortization for the fourth quarter increased from $1.1 million to $1.6 million, which is mainly due to the depreciation of the fixed assets and amortization of the intangible assets acquired from PARA. SICO recorded financial expenses of $0.3 million, compared to $0.2 million in 2002. Financial expenses for 2003 include interest expenses of $0.4 million ($0.3 million in 2002) and an exchange gain of $0.1 million ($0.1 million in 2002).

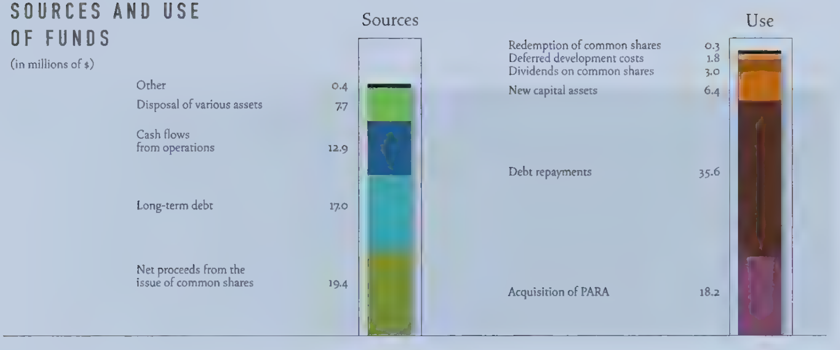
SICO closed the fourth quarter with a pre-tax loss of $1.4 million, compared with a pre-tax loss of $1.6 million in 2002. However, SICO benefited from a lower tax recovery this year than the previous year, as a downward adjustment had been made to its annual tax provision in the fourth quarter of 2002. The net loss for the period therefore amounted to $0.9 million or $0.13 per share ($0.13 diluted), as opposed to a slight net profit in 2002.

CASH FLOW ANALYSIS

Operating Activities
Before the net change in non-cash working capital items, operating activities provided cash flows of $18.7 million during fiscal 2003 ($16.8 million in 2002), consisting of annual net earnings adjusted for non-cash gains or charges, which mainly included depreciation and amortization expenses of $6.1 million, exchange gains of $1.7 million on the conversion of the long-term debt denominated in U.S. currency, and losses of $3.2 million on the revaluation and disposal of assets. Net change in non-cash working capital items used cash flows of $5.8 million ($2.4 million in 2002), notably reflecting the repayment of accounts payable and accrued liabilities related to the PARA acquisition. Consequently, cash flow from operating activities totalled $12.9 million in 2003, compared with $14.4 million in 2002.

SOURCES AND USE OF FUNDS

(in millions of $)



In the fourth quarter, cash flow from operating activities amounted to $10.3 million, compared with $2.9 million the previous year. During the period, SICO incurred a $2.1 million loss on the disposal of the Brantford building and to that end, reversed the estimated $1.9 million provision it had recorded the previous quarter as a loss on the revaluation of assets. Net change in non-cash working capital items, in a positive amount of $8.8 million versus $2.0 million in 2002, can be explained by the addition of PARA, and the accrual for restructuring costs.

Investing Activities

Investing activities used cash flows of $18.6 million for fiscal 2003. Principal investments were the following:

- a cash amount of $18.2 million (net of acquired cash) was used for the acquisition as at May 5, 2003, of all of the shares of PARA as described in Note 6 to Consolidated Financial Statements;

- $6.4 million for the purchase of new fixed assets. Of this amount, $4.1 million was invested in the fourth quarter, notably to fit out the architectural paint plants in Quebec City and Toronto with new production machinery, pursuant to the manufacturing plant specialization strategy adopted as part of the optimization program. Other fixed asset purchases for fiscal 2003 are related to the development of information systems, the opening of new Bétonel sales outlets, and the acquisition of various manufacturing and warehousing equipment; and

- $1.8 million in deferred charges, relating mainly to the development of new colour systems and Company markets.

SICO received proceeds of $2.7 million representing the balance on the sale price of the Hancock store network sold in December 2002. The Company also received proceeds of $5.0 million from the sale of fixed assets pursuant to its optimization program, including $4.5 million for the sale of the Brantford property in the fourth quarter.

Financing Activities

Financing activities used cash flows of $2.4 million in 2003. To finance part of the PARA acquisition, SICO used its proceeds of $19.4 million (net of issue costs and related taxes) from the public offering of 1,000,000 common shares completed in February 2003, in anticipation of the Company's future business development projects. In addition, the Company raised $0.6 million from the issue of 42,255 common shares of which 29,989 followed the exercise of stock options held by executives, officers and directors. The balance of 12,266 shares were issued under the stock purchase plan for employees, executives and directors.

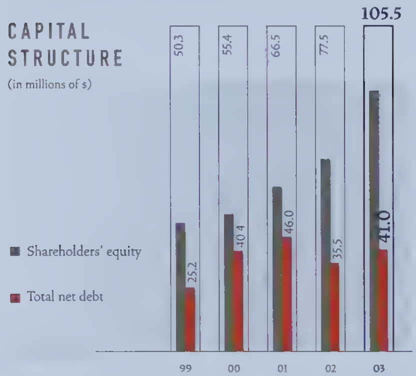
As part of the PARA acquisition, SICO also reorganized its bank debt, resulting in a $17 million increase in its long-term debt. In the fourth quarter, however, SICO used its strong cash flows from operating activities and the proceeds from the sale of a property to repay $15.2 million of its long-term debt and $2.2 million of its bank loan. For 2003, SICO repaid total debts of $35.6 million, including $24.0 million of its long-term debt and $11.6 million of its bank loan.

SICO also paid $3.0 million in dividends to holders of common shares, or $0.44 per common share. During the fourth quarter, it redeemed 13,000 common shares for cancellation purposes, for a consideration of $0.1 million, under its normal course issuer bid.

Also accounting for a $0.3 million exchange gain on cash and cash equivalents denominated in foreign currency, the various cash inflows and outflows described above used total cash flows of $7.7 million in 2003 (including $7.0 million in the fourth quarter), bringing cash and cash equivalents from $9.1 million as at December 27, 2002, to $1.4 million as at December 26, 2003.

CAPITAL STRUCTURE

(in millions of $)



FINANCIAL POSITION AS AT DECEMBER 26, 2003

The acquisition of PARA, the financing activities of the year, and the implementation of the optimization plan significantly modified SICO's balance sheet.

At fiscal year-end, total assets amounted to $188.8 million, up 21.4% over the previous year. SICO's working capital stood at $46.3 million for a current ratio of 2.0:1, compared with $52.6 million and a 2.5:1 ratio as at December 27, 2002. The increase in accounts receivable and inventories is mainly attributable to the addition of PARA. Conversely, the relative decline in working capital is due to the use of part of the Company's cash to reduce its debt and to repay certain accounts payable and accrued liabilities related to PARA.

The value of fixed assets decreased from $39.2 million to $33.8 million during the year due to the sale and revaluation of assets associated with the optimization program. Deferred charges rose from $4.4 million to $5.9 million, owing primarily to the PARA acquisition. The value of intangible assets totalled $15.9 million as at December 26, 2003, up from $2.1 million a year earlier, this increase being attributable to the acquisition of PARA's trademark and customer relations. Acquiring PARA also raised goodwill from $19.5 million to $37.1 million.

Long-term debt (including the current portion) declined by $2.1 million to $35.9 million as at December 26, 2003. It should be pointed out that because of year-end dates, fiscal 2004 will exceptionally include five debt repayment periods rather than four, which accounts for the relatively high current portion of long-term debt ($11.9 million versus $7.0 million at the close of fiscal 2002).

By adding the Class B preferred shares and bank loan, net of cash and cash equivalents, total net indebtedness went from $35.5 million as at December 27, 2002 (for a total net debt to invested capital ratio of 31:69) to $41.0 million (28:72 ratio) as at December 26, 2003.

Shareholders' equity rose 36.0% to $105.5 million as at December 26, 2003, owing to the positive contribution of net earnings for the fiscal year, the issue of common shares and translation adjustments, less the dividends paid on common shares and the share redemption premium. At the close of fiscal 2003, the book value per common share amounted to $15.61 versus $13.54 a year earlier.

BOOK VALUE PER COMMON SHARE

(in $)

OUTLOOK, REQUIREMENTS AND SOURCES OF FUNDS IN 2004

SICO looks forward to a good performance in 2004, in light of a business environment that continues to drive the sale of architectural paint in Canada. Above all, we will benefit from the full-year contribution of PARA, as opposed to eight months in 2003, and from the positive impact of the optimization program. This program will yield annualized savings of over $3 million, in addition to the $1 million synergies achieved in the areas of procurement and financial management following the acquisition of PARA. Although economic conditions in North America remain uncertain, SICO's Industrial Sector has taken measures to improve its profitability, even in a climate of slow growth. Improving profitability remains the Industrial Sector's priority for the next fiscal year.

We do not foresee any major increase in operating costs in 2004 except for normal inflation. The current strength of the Canadian dollar, while having an unfavourable impact on the Industrial Sector's sales, could help offset potential increases in the cost of certain raw materials such as petroleum-based products and titanium dioxide. In the event of sharp rises in raw material costs, SICO would meet the challenges by raising selling prices, leveraging its purchasing power, optimizing product formulation, which would result in improved productivity.

With regards to SICO's funding requirements, aside from the scheduled repayment of $11.9 million in long-term debt, capital expenditures of approximately $7 million are planned for 2004, notably for manufacturing and warehousing equipment, further improvements in information technology and the opening of new Bétonel sales outlets. In addition, a sum of $6.7 million will be paid under long-term operating leases for premises and machinery. SICO also intends to pursue its dividend policy and, as it does every year, will assess the opportunity of redeeming common shares under its normal course issuer bid. The cash flow from operating activities should be sufficient to cover these various funding requirements.

SICO also continues to be on the lookout for opportunities to acquire, at a reasonable price, businesses that are complementary in terms of market and geographical positioning. SICO had credit facilities of approximately $100 million as at December 26, 2003.

RISKS AND UNCERTAINTIES

Competition

SICO's industry is highly competitive in most product categories and geographical regions. Competition is largely based on customer brand awareness, price, quality, range of products offered, need for technology improvement, successful new product development and introduction, distribution capabilities and customer service. The Company is and will be competing with larger, better-capitalized companies that may be better positioned to respond to shifts in the marketplace.

Dependence on Key Customers

Certain of the Company's largest customers account for a significant proportion of its operating revenues. In 2003, one group of customers (totalling close to 500 points of sale) purchased architectural paint and related products representing 22% of the Company's total sales. Although SICO believes its relationships with its largest customers are good, the loss of a material amount of sales to any of these customers could materially adversely affect SICO.

Weather and Seasonality

Outdoor architectural paint products are subject to specific application requirements related to weather conditions. The sales of such products, which represent approximately 20% of the paint sales of the Company's Architectural Sector, are dependent upon weather and can be materially adversely affected by bad weather persisting for several days or weeks. Furthermore, the sale of outdoor products is seasonal in nature. Sales of such products in the second and third quarters are historically significantly higher than in the first and fourth quarters and, as such, net earnings are significantly lower in those quarters. Variable costs can be managed to match the seasonal pattern. However, a significant proportion of the Company's costs cannot be adjusted for seasonality.

Environmental Considerations

The protection of the environment and the compliance with related requirements are an ongoing concern for the Company, which has adopted a firm policy in this regard. The Company has internal controls and personnel dedicated to the compliance with all applicable environmental legislation. The Company is subject to various laws and regulations relating to the environment and to employee health and safety. These environmental laws and regulations relate to the generation, storage, transportation, disposal and emission into the environment of various substances and also allow, among other things, regulatory authorities to compel (or seek reimbursement for) cleanup of environmental contamination. Environmental authorization certificates are required at certain sites for operation of the Company's business, and these certificates are subject to modification and, in certain circumstances, revocation. The Company believes it complies in all material respects with currently applicable environmental laws and regulations, except for the following.

All of the Company's plants hold, where applicable, the environmental authorization certificates required to operate their business, except for some plants that will obtain, or are in the process of obtaining or modifying, the required environmental authorization certificates. The Company does not anticipate any problem in obtaining permits and authorizations for which it has applied or will apply. However, there is no assurance that such permits will be granted.

Among the dozen properties held by the Company, six have contamination problems to various degrees related to past operations. Types of identified contaminants consist mainly of oils and greases, aromatic solvents and volatile organic compounds. The Company believes that such contamination poses no risk to public health and does not require immediate intervention. However, no assurance can be given that expenditures will not be required to deal with known or unknown contamination, some or all of which may be material. Four of such properties have been inactive from a manufacturing standpoint for several years. The Company hopes to dispose of three of these properties during fiscal 2004, while the fourth is being used by the Architectural Sector's Technical Services and Research and Development departments and as a warehouse for finished products.

The Company cannot predict the environmental legislation or regulations that may be enacted in the future or how existing or future laws will be administered or interpreted. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies by regulatory agencies or stricter interpretation of existing laws, may require additional expenditures by the Company, some or all of which may be material.

Risks Relating to Acquisitions

In order to expand its services and geographical presence, the Company's business strategy includes growth through acquisitions. There can be no assurance that future acquisitions will be consummated on acceptable terms, that any newly acquired companies will be successfully integrated into the Company's operations, or that the Company will fully realize any of the synergies expected from such acquisitions. The Company may issue shares (which could result in dilution for existing shareholders) or may incur additional indebtedness or a combination thereof, for all or a portion of the consideration to be paid with respect to future acquisitions.

Raw Materials

The Company is reliant upon certain suppliers for pigments, resins, solvents, thinners and other components, and no assurances can be given that the Company will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes or for other reasons. The global paint industry must deal with a growing concentration of certain raw material providers, which may result in an increase in raw material prices that SICO may not be able to pass on to customers. Although the Company believes there are alternative suppliers for most key requirements, if its current suppliers are unable to provide the necessary raw materials or otherwise fail to deliver products in the quantities required in a timely manner, any resulting delays in the manufacture or distribution of existing products could have a material adverse effect on the Company's operating results and financial position.

Employees
Certain of the Company's employees are covered by collective agreements. Six collective agreements were renewed in 2003. The Company has two collective agreements covering 27 employees to be renewed between now and December 31, 2004. The Company's ability to maintain its current level of operating income could be impaired in the event of protracted or extensive work stoppages at any of its facilities.

Dependence on Key Personnel
The success of the Company is dependent upon its personnel. The unexpected loss or simultaneous departure of a number of the Company's key officers or employees could be detrimental to the Company's future operations. The success of the Company's business will depend, in part, upon its ability to attract and retain qualified personnel in accordance with its needs. There can be no assurance that the Company will be able to engage the services of such personnel or to retain its current personnel.

Major Shareholders
To the knowledge of the Company's management, the only persons owning beneficially, directly or indirectly, or exercising control or direction over more than 10% of the Company's outstanding voting shares will be Jean-Paul Lortie and 159585 Canada Inc.

The shareholders mentioned in the above paragraph can exercise significant influence over both the Company's business affairs and its internal affairs including, if an election of its Board of Directors were held, the entitlement to exercise a significant portion of the voting rights for the election of directors.

Retail Industry
The Company is engaged in some retail sales operations of paint, related products and accessories. Retail sales can be influenced by economic conditions and consumer behaviour, each of which may be unrelated to the Company's operations and beyond its direct control. The Company's future performance in this sector will depend on its ability to respond to changes in the economy that affect consumers' purchasing decisions for the products sold or made available by the Company.

Exchange Rate Fluctuations
Some of the Company's raw and packaging materials are priced and sold in U.S. dollars or linked to the U.S. dollar. Accordingly, fluctuations in the value of the U.S. dollar can affect the prices the Company pays for its main raw and packaging materials. In addition, because a portion of the Company's sales, cost of goods sold, indebtedness and other expenses are denominated in foreign currencies, the Company has exposure to fluctuations of such currencies, relative to the Canadian dollar. These currency fluctuations could have an impact on the Company.

JEAN OUELLET, CA
Vice President, Finance and Treasurer
March 2, 2004

DIRECTORS

Jean-Paul Lortie [1][3]
Chairman of the Board
SICO Inc.

Pierre Dufresne, CA
President and Chief Executive Officer
SICO Inc.

Jean-Paul Barré [2]
Vice Chairman of the Board
Lassonde Industries Inc.

Normand Bastien, CA [3]
Treasurer
159585 Canada Inc.

Pierre Brodeur [1]
Vice Chairman of the Board
SICO Inc.
Director of Corporations

Pierre LaRue, Q.C. [1][3]
Counsel
Desjardins Ducharme Stein Monast

Anièle Lecoq
Management Consultant

Denise Lortie, CA [1][2]
Vice President
Lortie-Boucher Group,
Sports Experts Franchisee

Pierre Martin [1]
Chairman of the Board
Société des chemins de fer du Québec Inc. and
Director of Corporations

Yves Rheault [2]
Consultant and Director of Corporations

[1] Member of the Executive Committee
[2] Member of the Audit Committee
[3] Member of the Human Resources and Corporate Governance Committee

OFFICERS

Jean-Paul Lortie [1]
Chairman of the Board

Pierre Dufresne, CA [1][2]
President and Chief Executive Officer

Martine Bazinet [1][2]
Vice President, Legal Affairs and Secretary

Denis Blanchette [1]
Vice President, Business Development
President, Sico-Becker S.A.S.

Claude Brosseau [1]
Vice President, Sales and Marketing,
Architectural Sector

Yves Gosselin [1]
Vice President, General Manager,
Industrial Sector and Operations

Marie Letellier [1]
Vice President, Human Resources

Jean Ouellet, CA [1][2]
Vice President, Finance and Treasurer

Daniel Pellerin [2]
President, Bétonel Ltée
(subsidiary of the Company)

[1] SICO Inc.
[2] Bétonel Ltée

MANAGEMENT'S REPORT

Related to the Consolidated Financial Statements

The consolidated financial statements of Sico Inc. and the financial information in this annual report are the responsibility of management and have been approved by the Board of Directors. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered to fairly present the financial position, results of operations and cash flows of the Company. As required, management has made informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Furthermore, management has prepared financial information presented elsewhere in the annual report and has assured that it is consistent with that in the financial statements.

In meeting its responsibility for the integrity of the financial information provided in this annual report, management relies on the internal control system of the Company. The purpose of this system is to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and carried out in accordance with the support of management, and financial records are reliable for preparing the financial statements. No system of internal control can detect and prevent all errors or irregularities. However, in the opinion of management, the system in place provides an acceptable balance between the advantages it can offer and the related costs.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, consisting solely of non-executive directors. The Committee meets periodically with management and with the external auditors to examine the activities of each party and the manner in which the respective responsibilities of each party are carried out. The external auditors have full access to the Committee, with and without management being present, to discuss the scope of their audit, and the adequacy of the internal control system and of the financial information. The Committee has examined the financial statements and has recommended their approval to the Board of Directors.

The external auditors appointed by the shareholders, Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, are responsible for independently auditing the financial statements in accordance with Canadian generally accepted auditing standards and expressing an opinion on these statements. Their report follows.

Jean-Paul Lortie
Chairman of the Board

Pierre Dufresne
President and Chief Executive Officer

March 2004

AUDITORS' REPORT

To the Shareholders of Sico Inc.

We have audited the consolidated balance sheets of Sico Inc. as at December 26, 2003 and December 27, 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 26, 2003 and December 27, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair
Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants
Montreal, Quebec

February 20, 2004

CONSOLIDATED STATEMENTS OF EARNINGS

years ended December 26, 2003 and December 27, 2002 (in thousands of dollars except per share data)

	2003	2002
	$	$
Sales	283,644	256,954
Cost of sales and operating expenses (Note 22)	256,684	233,668
Restructuring expenses (Note 5)	4,650	–
Operating earnings before:	22,310	23,286
Depreciation and amortization (Note 19)	5,796	5,211
Financial (income) expenses (Note 20)	(537)	146
	5,259	5,357
Earnings before income taxes	17,051	17,929
Income taxes (Note 21)	5,890	5,901
Net earnings	11,161	12,028
Weighted average number of outstanding common shares	6,580,369	5,604,338
Basic earnings per share	1.70	2.15
Diluted earnings per share	1.66	2.08

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

years ended December 26, 2003 and December 27, 2002 (in thousands of dollars)

	2003	2002
	$	$
Balance at beginning, previously reported	55,277	47,916
Restatement of losses on foreign currency translation (Note 2)	–	(435)
Balance at beginning, restated	55,277	47,481
Goodwill impairment (Note 2)	–	(1,924)
Net earnings	11,161	12,028
Common share issue costs, net of income taxes (Note 18)	(988)	–
Premium on common shares redemption (Note 18)	(244)	–
Dividends on common shares	(2,963)	(2,308)
Balance at end	62,243	55,277

CONSOLIDATED BALANCE SHEETS

as at December 26, 2003 and December 27, 2002 (in thousands of dollars)

	2003	2002
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	1,404	9,140
Accounts receivable (Note 8)	36,152	29,354
Income taxes	527	—
Inventories (Note 9)	45,542	41,931
Prepaid expenses	7,929	7,626
	91,554	88,051
Long-term receivables (Note 10)	1,281	1,365
Fixed assets (Note 11)	33,815	39,181
Deferred charges (Note 12)	5,874	4,431
Intangible assets (Note 13)	15,875	2,125
Goodwill (Note 14)	37,128	19,505
Future income taxes (Note 21)	3,296	937
	188,823	155,595
LIABILITIES		
Current liabilities		
Bank loan (Note 15)	2,769	2,838
Accounts payable and accrued liabilities	30,599	24,456
Income taxes	—	1,159
Current portion of long-term debt (Note 16)	11,875	7,000
	45,243	35,453
Long-term debt (Note 16)	23,993	31,023
Future income taxes (Note 21)	9,854	7,268
Deferred credits	472	510
Preferred Class B shares (Note 18)	3,800	3,800
	83,362	78,054
SHAREHOLDERS' EQUITY		
Capital stock (Note 18)	42,577	21,622
Retained earnings	62,243	55,277
Foreign currency translation adjustment	641	642
	105,461	77,541
	188,823	155,595

Approved by the Board

Jean-Paul Lortie
Director

Pierre Dufresne
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

years ended December 26, 2003 and December 27, 2002 (in thousands of dollars)

	2003	2002
	$	$
OPERATING ACTIVITIES		
Net earnings	**11,161**	12,028
Adjustments for:		
Depreciation and amortization	**6,142**	5,411
Future income taxes	**(52)**	(555)
Exchange gain	**(1,676)**	(233)
Loss on disposal of assets	**2,113**	100
Loss on assets revaluation (Note 5)	**1,051**	—
Net change in non-cash working capital items (Note 23)	**(5,844)**	(2,377)
Cash flow from operating activities	**12,895**	14,374
INVESTING ACTIVITIES		
Acquisitions of fixed assets	**(6,395)**	(3,412)
Business acquisition net of cash acquired (Note 6)	**(18,197)**	—
Disposal of Hancock Paint Inc. assets	**2,721**	387
Deferred charges	**(1,782)**	(1,606)
Proceeds from disposal of fixed assets	**4,988**	72
Long-term receivables	**86**	(231)
Cash flow from investing activities	**(18,579)**	(4,790)
FINANCING ACTIVITIES		
Bank loan	**(11,587)**	(13,062)
Increase in long-term debt	**17,000**	17,000
Reduction in long-term debt	**(24,061)**	(6,356)
Issue of common shares (Note 18)	**21,037**	3,000
Common share issue costs	**(1,463)**	—
Redemption of common shares (Note 18)	**(326)**	—
Dividends on common shares	**(2,963)**	(2,308)
Cash flow from financing activities	**(2,363)**	(1,726)
Exchange gain on foreign currency denominated cash and cash equivalents	**311**	187
(Decrease) increase in cash and cash equivalents	**(7,736)**	8,045
Cash and cash equivalents at beginning	**9,140**	(563)
Cash and cash equivalents - share of the joint venture at beginning (Note 7)	—	1,658
Cash and cash equivalents at end	1,404	9,140
Supplementary information		
Interest paid	**1,826**	1,504
Dividends paid on preferred shares	**180**	157
Income taxes paid	**7,627**	6,801
Balance of selling price receivable on disposal of Hancock Paint Inc. assets (Note 8)	—	2,881

(tabular amounts are in thousands of dollars, except per share data)

1. DESCRIPTION OF BUSINESS

The Company, incorporated under Part IA of the *Companies Act* (Quebec), manufactures and distributes paints and coatings principally in Canada.

The Company's financial year ends on the last Friday of December.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The financial statements of the entities controlled by the Company are consolidated. The entity jointly controlled by the Company, referred to as the joint venture, is accounted for using the proportionate consolidation method.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates notably with regard to the allowance for doubtful accounts, inventories, accounts payable and accrued liabilities, future income tax assets and liabilities as well as actuarial assumptions. These assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Revenue recognition

Revenue is recognized when risks and rewards of ownership are transferred, which coincides with when the goods are shipped.

Cash and cash equivalents

Cash and cash equivalents consist of cash or bank overdraft and short-term investments with original maturities of three months or less.

Inventories

Raw materials are valued at the lower of cost and replacement value while finished goods are valued at the lower of cost and net realizable value. The cost of inventories is determined substantially on an average cost basis. The cost of finished goods includes the laid-down cost of material plus the applicable share of labour and overhead expense chargeable to production.

Fixed assets

Fixed assets are recorded at cost and depreciated using the straight-line method, mainly at the following annual rates:

Land improvements	4% to 10%
Buildings	2 1/2% to 6 2/3%
Machinery and equipment	6 2/3% to 33 1/3%

Deferred charges

Deferred charges, comprising notably the colour systems, are recorded at cost and amortized on a straight-line basis at rates varying from 10% to 33 1/3%. Deferred charges also include incentives paid to customers following the signing of long-term supply agreements. These incentives are amortized over the contract term, and amortization has been applied as a reduction of sales.

Intangible assets

Intangible assets comprise customer relationships and trademark.

The customer relationships amount, which is based on the customers' value established at the time of acquisition, is depreciated at an annual rate of 8.33% using the straight-line method.

The trademark is deemed to have an indefinite useful life because management expects that it will generate cash flows indefinitely. The trademark is no longer amortized for purposes of calculating net income but is instead tested for impairment annually. Any loss in value is charged to earnings. The annual impairment test did not reveal any loss in value.

Goodwill

Goodwill represents the excess of the purchase price over the fair values of the net assets of the entities acquired at the respective dates of acquisition.

Goodwill is deemed to have an indefinite useful life and is no longer amortized for purposes of calculating net income but is instead tested annually for impairment. Under the impairment testing, any loss in value is charged to earnings. This standard is effective since January 1, 2002 following the adoption of the new recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, *Goodwill and other intangible assets*. The Company conducted the transitional goodwill impairment test as of the date of adoption. Based on this test, the Company has recognized an impairment of $1,924,000 relating to its American subsidiary, Hancock Paint Inc. to opening retained earnings. For the years ended December 26, 2003 and December 27, 2002, the annual impairment test did not reveal any additional loss in value.

Impairment of long-lived assets other than goodwill and intangible assets with indefinite lives

The Company evaluates, on an ongoing basis, the carrying value of its long-lived assets other than goodwill and intangible assets with indefinite lives. In order to determine whether an impairment exists, management considers the undiscounted cash flows estimated to be generated by those assets as well as other indicators. Any permanent impairment in the carrying value of assets is charged against earnings in the period an impairment is determined. For the year ended December 26, 2003, the Company has recognized an impairment on long-term assets of $1,051,000 (Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

The Company has a stock option plan, which is described in Note 18. Effective January 1, 2002, the Company adopted the recommendations of CICA Handbook Section 3870, *Stock-based compensation and other stock-based payments*. This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation made in exchange for goods and services. This Section requires that compensation for all awards made to non-employees and certain awards made to employees, including stock appreciation rights, direct awards of stock and awards that call for settlement in cash or other assets, be measured and recorded in the financial statements at fair value. This Section encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. The Section also requires pro forma disclosures relating to net earnings and earnings per share figures as if the fair value method of accounting had been used. This Section applies to awards granted by the Company on or after January 1, 2002.

As permitted by Section 3870, the Company has chosen to continue to account for stock-based options granted to employees based on the intrinsic value of the options at the date of grant. Accordingly, compensation cost for stock options issued to employees is measured as the excess, if any, of the quoted market price of the Company's common shares at the date of grant over the amount an employee must pay to acquire the common shares. The pro forma figures are presented in Note 18.

Research

Research expenses comprising mostly wages of employees involved in research, net of related tax credits, are charged to earnings in the year they are incurred.

Income taxes

The Company uses the asset and liability method to account for its income taxes. Future income taxes relate to the expected future tax consequences of differences between the carrying amounts of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Deferred credits

Deferred credits represent grants related to fixed assets. Deferred credits are amortized on a straight-line basis at rates corresponding to those used for the fixed assets to which they relate.

Foreign currency translation

Sales and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Effective January 1, 2002, the Company adopted the revised recommendations of CICA Handbook Section 1650, *Foreign currency translation*. The standards require that all unrealized translation gains and losses on assets and liabilities denominated in foreign currencies be included in earnings for the year, including gains and losses on long-term monetary assets and liabilities. As required by the revised recommendations, the Company has retroactively restated all prior period financial statements presented. As a result of this change, the opening balance of retained earnings for 2002 decreased by $435,000.

The accounts of the foreign subsidiaries, which are financially or operationally dependent on the parent company, are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates and non-monetary assets and liabilities are translated at the historical exchange rate. Sales and expenses are translated at average rates for the period. Translation gains or losses of such subsidiaries are reflected in net earnings.

The accounts of the self-sustaining foreign joint venture, whose economic activities are largely independent of the parent company, are translated at the current rate method. Under this method, the assets and liabilities of the joint venture denominated in foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet dates. Sales and expense items are translated at average rates of exchange for the period. Unrealized foreign exchange translation gains and losses are accrued and recorded as a foreign currency translation adjustment in Shareholders' equity.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. Pension costs and other retirement benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and life insurance costs. Pension plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of the active employees at the date of the plan amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Earnings per share

Basic earnings per share have been calculated on the weighted average number of common shares outstanding during the years.

Diluted earnings per share figures for each of the years presented have been computed using the treasury stock method.

3. ADJUSTMENT FOR CHANGE IN ACCOUNTING POLICY

Disclosure of guarantees

Effective January 1, 2003, the Company adopted the new recommendations of the Accounting Guideline AcG-14 of the CICA Handbook, *Disclosure of Guarantees*. This accounting guideline indicates the financial statements disclosures to be made by a guarantor relative to its obligations under guarantees conceded. The accounting guideline requires the disclosure of the nature of the guarantee, the approximate term of the guarantee, the context in which the guarantee was issued, the events or circumstances that would lead to a recourse to the guarantee, the maximum potential amount of future payments, the carrying amount of the liability, if any, the nature of any recourse provision and any assets held as collateral.

Disposal of long-lived assets and discontinued operations

The CICA issued Section 3475, *Disposal of long-lived assets and discontinued operations*, which is effective for disposal activities initiated by the Company's commitment to a plan on or after May 1, 2003. This Section provides guidance on the recognition measurement, presentation and disclosure of long-lived assets to be disposed of. It replaces the disposal provisions of *Property, plant and equipment*, Section 3061, as well as *Discontinued operations*, Section 3475. The Section:

- Provides criteria for classifying assets as held for sale;
- Requires an asset classified as held for sale to be measured at fair value less cost to sell;
- Provides criteria for classifying a disposal as a discontinued operation; and
- Specifies presentation and disclosure for discontinued operations and other disposals of long-lived assets.

The adoption of this new Section did not have a significant impact on the consolidated financial statements.

Termination benefits and costs associated with exit and disposal activities

In March 2003, the Emerging issues committee released Abstracts EIC-134, *Accounting for severance and termination benefits* ("EIC-134"), and EIC-135, *Accounting for costs associated with exit and disposal activities (including costs incurred in a restructuring)* ("EIC-135"). EIC-134 provides interpretive guidance to the accounting requirements for the various types of severance and termination benefits covered in CICA Handbook Section 3461, *Employee future benefits*. EIC-135 provides interpretive guidance for the timing of the recognition of a liability for costs associated with an exit or disposal activity. The new guidance requires that the liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in CICA Handbook Section 1000, *Financial statement concepts*. These new EICs also establish fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The Company adopted the new recommendations effective April 1, 2003. The impact of the application of those new Sections is reflected in Note 5.

4. FUTURE ACCOUNTING CHANGES

Impairment of long-lived assets

The CICA issued Section 3063, *Impairment of long-lived assets*, which will be effective for the Company's fiscal year beginning on April 1, 2003. This Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061, *Property, plant and equipment*. The provisions of the new Section require an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. Impairment loss is measured as the amount by which its carrying amount exceeds its fair value.

Asset retirement obligations

The CICA issued Handbook Section 3110, *Asset retirement obligations*. The new standard focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The standard is effective for fiscal years beginning on or after January 1, 2004.

Stock-based compensation and other stock-based payments

The CICA re-issued Handbook Section 3870, *Stock-based compensation and other stock-based payments*. The revised standard requires the adoption of the fair value based method for all stock-based awards effective for fiscal years beginning on or after January 1, 2004.

The Company is currently evaluating the impact of the adoption of these new standards and guidances, and therefore, has not yet completed its assessment of the effect on the consolidated financial statements.

5. RESTRUCTURING EXPENSES

On September 17, 2003, the Company announced and started a comprehensive plan to optimize the Company's manufacturing, distribution and customer services infrastructure for both architectural and industrial sectors. Drawing on an in-depth analysis of the Company's assets and operations, this plan aims to achieve greater specialization and concentration of manufacturing operations and to optimize distribution and customer service operations. The objective of this plan is to reduce the Company's current facilities. The costs relating to the implementation of the optimization plan were entirely incurred and accounted for as at December 26, 2003.

(tabular amounts are in thousands of dollars, except per share data)

5. RESTRUCTURING EXPENSES (CONTINUED)

Continuity of the reserve for restructuring expenses

In 2003, the Company recorded a reserve for restructuring expenses of $4,650,000 relating to workforce reduction costs, loss on disposal of assets, loss on assets revaluation and other related costs. The following table sets forth the reserve for restructuring expenses as at December 26, 2003:

	Workforce reduction	Assets revaluation	Assets disposal	Other restructuring expenses	Total
	$	$	$	$	$
Restructuring expenses	886	1,051	1,988	725	4,650
Amounts paid	(227)	—	—	(447)	(674)
Loss recorded	—	(1,051)	(1,988)	—	(3,039)
Balance as at December 26, 2003	659	—	—	278	937

6. BUSINESS ACQUISITION

For all business acquisitions, the Company records the operating results of the acquired companies at their acquisition dates.

On May 5, 2003, the Company acquired all the outstanding shares of Para Inc. ("Para"), a paint and coatings manufacturer and distributor, for a total consideration of $18,478,000.

The acquisition is accounted for using the purchase method and the purchase price allocation is shown below:

	$
Accounts receivable	12,799
Income taxes	97
Inventories	6,449
Prepaid expenses	1,770
Fixed assets	425
Deferred charges	1,554
Customer relationships	4,500
Trademark	9,500
Goodwill	17,621
Bank loan	(11,518)
Accounts payable and accrued liabilities	(17,647)
Long-term debt	(6,581)
Future income taxes	(772)
	18,197
Cash position at the acquisition date	281
Cash consideration	18,478

The goodwill which was assigned to the architectural segment of the Company is not deductible for tax purposes.

The Company has financed the transaction through the net proceeds resulting from the public offering of common shares completed in February 2003 and an increase in the Company's indebtedness (Note 18 b)).

The acquisition price includes integration and acquisition costs of $2,221,000 relating to professional fees and other necessary costs to integrate Para's activities.

The following table details the payments made and the balance payable of the acquisition and integration costs:

	Liabilities relating to the acquisition and integration	Amounts paid off as at December 26, 2003	Balance as at December 26, 2003
	$	$	$
Professional fees	340	340	—
Aggregation and closure facility costs	492	14	478
Workforce reduction costs	1,389	538	851
	2,221	892	1,329

7. JOINT VENTURE: SUPPLEMENTARY INFORMATION

Since November 10, 1998, the Company has a 50% interest in the joint venture Sico-Becker S.A.S. The Company's proportionate share of its joint venture in the assets and liabilities, results of operations and cash flows in the consolidated financial statements are as follows:

	2003	2002
	$	$
Balance sheet		
Current assets	3,427	2,938
Long-term assets	3,643	3,683
Current liabilities	1,307	772
Long-term liabilities	2,355	2,995
Statement of earnings		
Sales	5,203	4,925
Charges	5,197	5,245
Net earnings (loss)	6	(320)
Statement of cash flows		
Cash flows from:		
Operating activities	773	(1,787)
Investing activities	(75)	(10)
Financing activities	—	371

(tabular amounts are in thousands of dollars, except per share data)

8. ACCOUNTS RECEIVABLE

	2003	2002
	$	$
Customer	34,634	24,908
Balance of selling price receivable [1]	—	2,881
Other	1,518	1,565
	36,152	29,354

[1] On December 27, 2002, Sico sold assets related to its architectural paint segment, operating under the name Hancock in Boston, to the North American division of ICI Paints. This sale was concluded at book value. During the year ended December 26, 2003, the selling price has been reduced by $160,000.

9. INVENTORIES

	2003	2002
	$	$
Raw materials	7,866	7,342
Finished goods	37,676	34,589
	45,542	41,931

10. LONG-TERM RECEIVABLES

	2003	2002
	$	$
Loans to officers for the purchase of outstanding shares, bearing interest at a rate of 5%, receivable over a maximum period of 10 years	794	878
Loan to an affiliated company, bearing interest at Euribor plus 6/10 of 1%, without specific terms of repayment	487	487
	1,281	1,365

11. FIXED ASSETS

	2003		
	Cost	Accumulated depreciation	Net book value
	$	$	$
Land and improvements	3,102	383	2,719
Buildings	24,983	9,942	15,041
Machinery and equipment	46,255	30,200	16,055
	74,340	40,525	33,815

	2002		
	Cost	Accumulated depreciation	Net book value
	$	$	$
Land and improvements	3,070	358	2,712
Buildings	29,742	9,702	20,040
Machinery and equipment	44,939	28,510	16,429
	77,751	38,570	39,181

12. DEFERRED CHARGES

	2003		
	Cost	Accumulated amortization	Net book value
	$	$	$
Deferred charges			
Colour systems	3,953	1,342	2,611
Other	7,080	3,817	3,263
	11,033	5,159	5,874

	2002		
	Cost	Accumulated amortization	Net book value
	$	$	$
Deferred charges			
Colour systems	2,788	657	2,131
Other	4,909	2,609	2,300
	7,697	3,266	4,431

(tabular amounts are in thousands of dollars, except per share data)

13. INTANGIBLE ASSETS

Intangible assets are related to the architectural segment and detailed as follows:

	2003			
	Cost	Accumulated amortization	Net book value	Acquisitions
	$	$	$	$
Amortized intangible assets				
Customer relationships	4,500	250	4,250	4,500
Non-amortized intangible assets				
Trademark			11,625	9,500
			15,875	14,000

	2002	
	Net book value	Acquisitions
	$	$
Non-amortized intangible assets		
Trademark	2,125	—

The changes in the net book value of intangible assets are as follows:

	2003	2002
	$	$
Balance, beginning of year	2,125	2,125
Acquisitions	14,000	—
Depreciation and amortization	(250)	—
Balance, end of year	15,875	2,125

14. GOODWILL

The changes in the book value of goodwill are as follows:

	2003		
	Architectural	Industrial	Total
	$	$	$
Balance, beginning of year	5,679	13,826	19,505
Acquisition	17,621	—	17,621
Variation due to translation of foreign exchange	—	2	2
Balance, end of year	23,300	13,828	37,128

	2002		
	Architectural	Industrial	Total
	$	$	$
Balance, beginning of year	7,603	10,420	18,023
Proportionate consolidation of the joint venture	—	3,406	3,406
Impairment	(1,924)	—	(1,924)
Balance, end of year	5,679	13,826	19,505

15. BANK LOAN

The Company has a revolving line of credit, for an authorized amount of $50,000,000 or the equivalent in US dollars, bearing interest at a rate of 4.5%. The bank loan is renewable on June 30 of each year and is governed by the loan agreements described in Note 16.

16. LONG-TERM DEBT

	2003	2002
	$	$
Revolving line of credit of $47,625,000 bearing interest at an average rate of 4.0% as at December 26, 2003, maturing on June 30, 2006 and repayable by quarterly instalments of $2,375,000	34,000	—
Class A shares of the joint venture, retractable in 2005, and presented as a liability	1,868	1,867
Bank loans, bearing interest at rates varying from 2.5% to 4.1%, repaid in part during the current year and the balance converted into the revolving line of credit	—	36,156
	35,868	38,023
Current portion	11,875	7,000
	23,993	31,023

Estimated principal payments required in the forthcoming years are as follows:

	$
2004	11,875
2005	8,993
2006	15,000

The loan agreements contain covenants pertaining mainly to securities which may be given, long-term assets which may be disposed of, and financial ratios which are to be attained so that the Company is not required to give specific securities. As at December 26, 2003, the Company did not give any of those securities.

17. FINANCIAL INSTRUMENTS

Fair value

At year-end, the estimated fair values of cash and cash equivalents, accounts receivable, long-term receivables, bank loan and accounts payable and accrued liabilities approximate their respective carrying values.

The estimated fair value of long-term debt is not significantly different from its carrying value.

(tabular amounts are in thousands of dollars, except per share data)

17. FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments

The Company does not hold or issue financial instruments for trading or hedging purposes other than the forward exchange contracts mentioned below.

Credit risk

Credit risk concentration with respect to trade receivables is limited due to the Company's large customer base.

Currency risk

The Company is exposed principally to currency risk as a result of its export of goods produced in Canada and sold in the United States and Mexico. This risk is partially covered by certain purchases of raw materials. Although foreign currency transactions are not significant, the Company may occasionally enter into forward exchange contracts to protect itself from currency risk. As at December 26, 2003 and December 27, 2002, there were no forward exchange contracts outstanding.

18. CAPITAL STOCK

a) Authorized

Preferred shares, without par value

An unlimited number of Class A shares, non-voting except upon default of payment of at least eight quarterly dividends, issuable in series, bearing the features stated in articles of amendment to be authorized by by-law

2,000,000 Class B preferred shares, voting, non-participating, non-cumulative dividend subordinated to the dividend on common shares, equal to the lesser of 10% of paid-in value and the amount of dividends paid on common shares, redeemable or retractable at average paid-in value. For the years 1997 to 2003, the holder, a Board member, has agreed to reduce the dividend to the average prime rate for the month preceding the declaration of the dividend, plus 0.05%

An unlimited number of common shares, without par value

	2003	2002
	$	$
Issued		
6,754,634 common shares (5,725,379 in 2002)	**42,577**	21,622
1,381,819 Class B preferred shares, classified as liabilities	**3,800**	3,800

b) Summary of common share transactions:

	Number	Amount
		$
Shares issued, December 28, 2001	5,425,747	18,622
Exercise of stock options	285,148	2,687
Stock purchase plan for employees, executives and directors	14,484	313
Shares issued, December 27, 2002	5,725,379	21,622
Issued for cash from the public offering (1)	1,000,000	20,400
Exercise of stock options	29,989	331
Stock purchase plan for employees, executives and directors	12,266	306
Redemption of shares (2)	(13,000)	(82)
Shares issued, December 26, 2003	6,754,634	42,577

(1) On February 21, 2003, the Company issued 1,000,000 common shares as part of a public offering for a total cash consideration of $20,400,000 before share issue costs of $988,000 (net of income taxes of $475,000).

(2) During the year ended December 26, 2003, the Company repurchased and cancelled 13,000 common shares for a net cash consideration of $326,000, including redemption fees. The excess of $244,000 over paid-up capital of the shares was recorded as a decrease in retained earnings.

c) Stock option plan

Under the stock option plan for senior management of the Company, the Board of Directors may, at its discretion, grant options to purchase common shares of the Company to certain officers and designated executives. The exercise price is established by the Board of Directors but may not be lower than the closing price of a regular lot of the Company's common shares on the Toronto Stock Exchange on the last trading day preceding the grant date. Options vest over a four-year period from the date of grant at a rate of 20% per year and must be exercised within a ten-year period, except in the event of retirement, termination of employment or death. At year-end, 349,082 common shares (247,896 in 2002) have been reserved for issuance under this plan.

(tabular amounts are in thousands of dollars, except per share data)

18. CAPITAL STOCK (CONTINUED)

c) Stock option plan (continued)

The following table presents information concerning all stock options granted by the Company for the years ended December 26, 2003 and December 27, 2002.

	2003		2002	
	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share
		$		$
Outstanding at beginning	247,896	11.03	536,424	10.21
Issued	131,175	21.99	—	—
Exercised or forfeited	(29,989)	11.01	(288,528)	9.51
Outstanding at end	349,082	15.15	247,896	11.03

The outstanding stock options granted to certain members of senior management of the Company at December 26, 2003, are as follows:

Options issued	Options exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)
		$	
17,200	17,200	10.00	1
18,601	18,601	8.88	2
25,900	25,900	6.55	3
25,000	25,000	8.30	3
48,000	48,000	10.50	4
59,287	59,287	13.25	4
10,812	10,812	16.00	6
13,512	13,512	17.50	6
130,770	25,830	21.99	10
349,082	244,142	15.15	6

Had compensation cost been determined using the fair value based method at the date of the grant for options granted in 2003 (none in 2002) under all plans, the Company's pro forma net earnings, earnings per share and diluted earnings per share would have been as presented in the table below:

	2003
	$
Net earnings	11,161
Adjustment to net earnings	(120)
Pro forma net earnings	11,041
Pro forma earnings per share:	
Basic	1.68
Diluted	1.64

The pro forma disclosure excludes the effect of options granted before January 1, 2002. These pro forma amounts include a compensation cost calculated using the Black and Scholes option-pricing model with the following assumptions:

	2003
Weighted-average fair value of options at the date of the grant	$6.14
Risk-free interest rate	3.85%
Dividend yield	2.01%
Expected volatility	32%
Expected life	5 years

d) Stock purchase plan for employees, executives and directors

This stock purchase plan was set up to allow the employees, executives and directors of the Company to purchase shares of the Company's capital stock. The subscription price of the common shares is equal to the average market closing price during the last five days of trading prior to the issue date of the common shares offered. Under the plan, the maximum number of shares offered annually is 25,000 shares, and the remaining number of shares offered as at December 26, 2003 is 96,374 shares.

(tabular amounts are in thousands of dollars, except per share data)

18. CAPITAL STOCK (CONTINUED)

e) Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 26, 2003 and December 27, 2002:

	2003	2002
	$	$
Numerator:		
Net earnings	11,161	12,028
Denominator:		
Denominator for basic earnings per share - weighted average number of shares	6,580,369	5,604,338
Dilutive effect of stock options	141,910	189,238
Denominator for diluted earnings per share - weighted average number of shares and assumed conversions	6,722,279	5,793,576
Basic earnings per share	1.70	2.15
Diluted earnings per share	1.66	2.08

19. DEPRECIATION AND AMORTIZATION

	2003	2002
	$	$
Fixed assets	4,037	4,319
Deferred charges (1)	1,893	1,134
Customer relationships	250	—
Deferred credits	(38)	(42)
	6,142	5,411

(1) Amount of $346,000 ($200,000 in 2002) of amortization related to deferred charges was applied as a reduction of sales.

20. FINANCIAL (INCOME) EXPENSES

	2003	2002
	$	$
Interest on long-term debt	1,539	1,125
Other interest	383	353
Dividends on preferred Class B shares	180	157
Cash discounts	(1,439)	(1,308)
Foreign currency translation gain	(1,200)	(181)
	(537)	146

21. INCOME TAXES

The income tax provision for 2003 and 2002, is as follows:

	2003	2002
	$	$
Current income taxes	5,870	6,390
Future income taxes	20	(489)
	5,890	5,901

The Company's effective income tax rate is calculated as follows:

	2003	2002
	%	%
Combined income tax rate	33.9	36.1
Increase (decrease) in rate resulting from:		
Manufacturing and processing profits deduction	(0.7)	(2.0)
Dividends on preferred shares	0.4	0.3
Non-deductible expenses and non taxable income	(1.2)	0.9
Tax losses of US subsidiaries	3.2	1.4
Change in future income tax balances due to a rate reduction	(0.9)	(1.4)
Other	(0.2)	(2.4)
Effective income tax rate	34.5	32.9

At year-end, the future income taxes are as follows:

	2003	2002
	$	$
Future income tax assets		
Employee future benefits	633	446
Reserve for restructuring expenses	1,190	—
Share issue costs	380	—
Other	685	214
Unrealized tax losses (1)	6,851	8,166
Valuation allowance	(6,443)	(7,889)
	3,296	937
Future income tax liabilities		
Fixed assets	2,887	3,900
Goodwill	1,154	1,141
Other assets	5,584	2,094
Other	229	133
	9,854	7,268

(tabular amounts are in thousands of dollars, except per share data)

21. INCOME TAXES (CONTINUED)

(1) As at December 26, 2003, the American subsidiaries have approximately US$12,320,000 in tax losses. These losses may be carried forward to reduce taxable income up to the year 2023. A valuation allowance has been recorded against the aggregate of this tax benefit. Moreover, the joint venture has unused tax losses of approximately Euros 293,000 which can be applied against taxable income through 2008.

22. RESEARCH

Research expenses amount to $4,036,000 for the year ($3,692,000 in 2002) and are shown under "Cost of sales and operating expenses". Some of these expenses qualify for tax credits of $382,000 ($407,000 in 2002), which are applied against these expenses.

23. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2003	2002
	$	$
Accounts receivable	**3,057**	(1,982)
Inventories	**2,688**	(1,408)
Prepaid expenses	**1,448**	(1,282)
Accounts payable and accrued liabilities	**(11,481)**	2,398
Income taxes	**(1,556)**	(103)
	(5,844)	(2,377)

24. COMMITMENTS

The long-term operating leases for premises and equipment as well as other commitments outstanding as at December 26, 2003, comprise the following annual minimum payments and contain the usual clauses pertaining to taxes, insurance and other expenses:

	$
2004	6,712
2005	5,859
2006	5,305
2007	4,689
2008	1,682

25. CONTINGENCY

In the normal course of business, a certain number of claims and lawsuits were brought against the Company with regards to civil liability and contractual disagreements with customers and other third parties. The Company strongly defends these claims.

Three lawsuits relate to allegations of defective products or products not suitable for the use for which they were intended, having caused damage to their user. Two lawsuits carry on allegations of civil liability having caused various damages, of which some injuries, following a use of products however in conformity. The Company referred three of these five cases to its insurers and their legal advisers. For four of these cases, it is difficult to determine the ultimate responsibility of the Company or to evaluate the amounts involved. However, according to information known to date, and although any litigation comprises a share of uncertainty, the Company does not believe that these claims and lawsuits will have an adverse material impact on its financial position. The management believes that the Company has established adequate provisions to cover the possible losses and the non-recoverable amounts of the insurance companies relating to these claims and lawsuits.

26. EMPLOYEE FUTURE BENEFITS

The Company maintains primarily defined benefit pension plans for most of its employees. The other plans relate to other retirement benefits, primarily life insurance, offered by the Company to its employees.

a) Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension plans		Other plans	
	2003	2002	2003	2002
	$	$	$	$
Accrued benefit obligations				
Balance, beginning of year	**59,928**	54,399	**1,213**	846
Service cost	**2,839**	2,510	**46**	25
Benefits paid	**(2,690)**	(2,577)	**(118)**	(109)
Interest cost	**3,798**	3,552	**75**	53
Actuarial loss (gain)	**301**	2,044	**(128)**	398
Balance, end of year	**64,176**	59,928	**1,088**	1,213

(tabular amounts are in thousands of dollars, except per share data)

26. EMPLOYEE FUTURE BENEFITS (CONTINUED)

	Pension plans		Other plans	
	2003	2002	2003	2002
	$	$	$	$
Plan assets				
Fair value, beginning of year	55,293	56,288	—	—
Contributions	1,674	1,567	118	109
Benefits paid	(2,690)	(2,577)	(118)	(109)
Actual return on plan assets	5,251	15	—	—
Fair value, end of year	59,528	55,293	—	—
Funded status				
Deficit	(4,648)	(4,635)	(1,088)	(1,213)
Unrecognized transitional (assets) obligation	(3,125)	(3,410)	382	548
Unrecognized net actuarial loss	6,777	8,065	458	504
Accrued benefit (liability) asset	(996)	20	(248)	(161)
Valuation allowance	(765)	(715)	—	—
Accrued benefit liability, net	(1,761)	(695)	(248)	(161)

The average remaining service periods of active employees covered by the pension plans varies from 13.3 to 15.1 years (13.7 to 14.8 years in 2002).

b) The following information pertains to underfunded plans at year-end:

	Pension plans		Other plans	
	2003	2002	2003	2002
	$	$	$	$
Accrued benefit obligations	23,158	20,356	1,088	1,213
Fair value of plan assets	15,465	13,619	—	—
Funding deficit	(7,693)	(6,737)	(1,088)	(1,213)

c) The significant actuarial assumptions adopted in measuring the Company's expenses and accrued benefit obligations are as follows:

	Pension plans		Other plans	
	2003	2002	2003	2002
	%	%	%	%
Discount rate	6.3	6.3	6.3	6.3
Expected long-term rate of return on plan assets	7.0	7.0	—	—
Rate of compensation increase	4.3	4.3	4.3	4.3

d) The net expense recognized during the years is as follows:

	Pension plans		Other plans	
	2003	2002	2003	2002
	$	$	$	$
Net benefit plan expense				
Current service cost	1,932	1,644	46	25
Interest cost	3,798	3,552	75	53
Expected return on plan assets	(3,844)	(3,914)	—	—
Amortization of transitional (assets) obligation	(285)	(286)	51	51
Amortization of actuarial loss	182	—	33	3
Adjustment of the valuation allowance on accrued benefit asset	50	—	—	—
	1,833	996	205	132

27. SEGMENTED INFORMATION

The Company has two business units organized by products. The Company assesses the performance of the business units based on the following items: sales, operating earnings before depreciation and amortization, financial (income) expenses and income taxes; and operating earnings before financial (income) expenses and income taxes. Each business unit, except for the Head office segment, includes activities related to manufacturing, sales and distribution of paints and coatings. Management of cash and cash equivalents, as well as other activities related to the corporate strategies with regard to manufacturing and market development are part of the Head office segment. The allocation of the expenses of this segment would not assist in the evaluation of the contribution of the other segments.

(tabular amounts are in thousands of dollars, except per share data)

27. SEGMENTED INFORMATION (CONTINUED)

The accounting policies used to determine segmented results and measure segmented assets are the same as those described in the summary of significant accounting policies.

	Architectural	Industrial	Head office	Total
	$	$	$	$
2003				
Sales	243,497	40,147	—	283,644
Restructuring expenses	2,269	2,017	364	4,650
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	41,311	(1,061)	(17,940)	22,310
Depreciation and amortization	4,098	837	861	5,796
Operating earnings before financial (income) expenses and income taxes	37,213	(1,898)	(18,801)	16,514
Total assets	144,015	35,220	9,588	188,823
Acquisitions of fixed assets	4,018	771	1,606	6,395
2002				
Sales	214,999	41,955	—	256,954
Operating earnings before depreciation and amortization, financial (income) expenses and income taxes	37,894	3,129	(17,737)	23,286
Depreciation and amortization	3,138	812	1,261	5,211
Operating earnings before financial (income) expenses and income taxes	34,756	2,317	(18,998)	18,075
Total assets	96,158	43,186	16,251	155,595
Acquisitions of fixed assets	1,627	706	1,079	3,412

Geographical information

	2003	2002
	$	$
Sales		
Canada	267,903	231,478
Other countries	15,741	25,476
	283,644	256,954

	2003			2002		
	Total assets	Fixed assets	Goodwill	Total assets	Fixed assets	Goodwill
	$	$	$	$	$	$
Canada	169,101	32,880	27,749	135,412	38,156	10,128
United States	11,276	702	5,943	12,013	839	5,943
France	7,028	75	3,408	6,629	8	3,406
Other countries	1,418	158	28	1,541	178	28
	188,823	33,815	37,128	155,595	39,181	19,505

28. GUARANTEES

In connection with the sale of certain assets, the Company has agreed to indemnify the purchasers should a claim be filed regarding environmental matters or any other matters related to the previous operation of these assets. As of December 26, 2003, the indemnity guarantees consented, which will expire no later than December 2005, amount in aggregate to $981,000. To date, the Company has never made any material indemnity payments under such agreements.

29. WEATHER

Exterior paint products are subject to specific application requirements related to weather conditions. The sales volume of such products, which account for approximately 23% of the paint sales of the Company's architectural sector, is dependent upon weather conditions and may be materially adversely affected by unfavourable weather conditions persisting for several days or weeks.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2003.

SHAREHOLDERS AND INVESTORS INFORMATION

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Listing
Ticker Symbol: SIC
Toronto Stock Exchange

Registrar and Transfer Agent
National Bank Trust Inc.
Montreal, Quebec

Auditors
Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Montreal, Quebec

Financial Communications
Lefebvre Financial Communications Inc.

Annual Information Form
Shareholders may obtain a copy of the Annual Information Form on the Internet (www.sedar.com) or by sending a request in writing to the Legal Department of SICO Inc.

Annual General Meeting of Shareholders
May 13, 2004, 10:00 a.m.
Delta Centre-Ville Hotel
Regency Room A
777 University Street
Montreal, Quebec

Ce rapport est également disponible en français.

SICO inc.

WWW.SICO.COM